

SECTION 1

IARNRÓD ÉIREANN

Procurement & Internal Controls Investigation

**Strictly Private &
Confidential**

Prepared by:



**BAKER TILLY
RYAN GLENNON**

**INTERIM
REPORT
31 January
2008**

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CONFIDENTIALITY

The contents of this Interim Report are based on the documents and information and explanations made available and provided to us. We have not, except where specifically indicated in this Interim Report, independently verified the information provided or representations made to us.

This Interim Report is confidential and is for the benefit of the Iarnród Éireann Steering Group Committee set-up for the purposes of this assignment in accordance with the *Terms of Reference* provided. This report should be treated as highly commercially sensitive and the copies issued to the Steering Group have been numbered. No responsibility or liability is extended or shall be extended to any third party for the whole or any part of its contents. Should you wish to disclose it to a third party we would request that our permission is sought in advance.

The schedule of information requested by Baker Tilly Ryan Glennon provided to Iarnród Éireann is set out in **Appendix 3** which also shows details of information actually made available for review by the Company. Attention is drawn to items which were not received or do not exist.

Following consideration and any comments received from the Steering Group it is intended to then issue the finalised Interim Report.

1. INTRODUCTION AND BACKGROUND

Iarnród Éireann (IÉ) which runs the railway system in Ireland, is a subsidiary of Coras Iompair Éireann (CIE) a semi-state company. IÉ is responsible for maintaining Rail Passenger and Freight Services in the Republic of Ireland as well as Port and on train catering operations.

Baker Tilly Ryan Glennon have been engaged to carry out a full review of the Procurement Department within Infrastructure Maintenance, Signal Electrical & Telecommunications (SE&T) and New Works (IMSN) and Internal Control Systems within the Infrastructure Maintenance, Signal Electrical & Telecommunications (SE&T) and New Works divisions, together with a review of the management of stock inventory in Portlaoise Depot and line-side, throughout the rail network.

The background and events leading to the requirement for this review arose from an internal investigation into activities associated with the removal and unauthorised disposal of track materials and ‘suspect’ transactions with suppliers of materials and services.

The Assignment is split into two broad categories:

Systems Review

- Review of the IMSN Procurement System from Policy formulation at the highest level through to transaction compliance testing at the lowest level a - “root and branch review”.
- Review of the Stock Management system for controlling and recording stock movements in to and out of Portlaoise Depot and line-side materials throughout the Organisation.

Forensic Examination

- Examination of conduct in the acquisition, deployment and management of services, resources and plant equipment procured during the period from January 2004 to date.

- Examination of the relationships with contractors of goods and services to the Company during the period from January 2004 to date.
- Assessment of the extent of actual loss or misappropriation from January 2004 to date.
- Identification of responsibility for any breach in procurement policy specifically to identify any neglect to duty or lack of competence in the acquisition of goods and services and to report on areas where loss or misappropriation has occurred and the associated value from January 2004 to date and comment on where potential future risk arises.

This Interim Report has primarily focused on the first of these areas, the **Systems Review**. Interim findings and recommendations are included in this Interim Report for consideration and discussion. It is to be noted that throughout the period of our review, management have been implementing changes in procedures following receipt of Reports from the Group Internal Audit Unit and we understand this work is ongoing.

It is also to be noted that the Company is engaged on an extensive Capital and Infrastructural Development Programme in line with the stated Government initiatives outlined in Transport 21. This involves very substantial capital investment over the life of the programme from 1999 to 2013.

To place the IMSN procurement review in context, the first capital expenditure programme (1999-2003) resulted in expenditure of €661 million, the bulk of which was on infrastructural safety investment. The second programme (2004-2008) has a budget of €512 million and places more emphasis on the safety management systems of Iarnród Éireann. By the end of 2008, over €1.1 billion will have been expended on railway safety resulting in a much safer railway network for both passengers and staff. The programme is of 15 year duration (1999-2013), in 3 five-year tranches. The second programme commenced in 2004 and will run until end 2008. The third programme will run from 2009 to 2013.

To place our Procurement Review in context of annual spend by the company for the areas under review, the Infrastructure Maintenance Budget alone for 2007 has an annual spend of in excess of €75 million including direct labour.

The purchase order value expenditure raised for Infrastructure Maintenance, SE&T and New Works collectively, with external vendors, for the years 2005, 2006 and 2007 have totalled €176 million, €235 million and €252 million respectively.

To place our Review of management of stock in Portlaoise Depot and of line-side materials into context, Appendix 9 lists the value of stock at each location as at November 2007. It shows that the value of stock in Portlaoise depot was circa €11.2 million and stock at both Kildare and Connolly was valued at circa €2.1 million and €1.3 million respectively.

Current Status

Systems Review

Our findings of the IMSN Procurement system to date are summarised in the Executive Summary and are included in more detail in **Appendices 4 and 5**.

Fieldwork on the Management of Stock system is completed in the Portlaoise Depot and within the Divisions and line-side. Our findings are summarised in the Executive Summary and are included in more detail in **Appendix 6**.

The Systems Review was completed in January 2008.

Forensic Examination

With regard to the Forensic element of the assignment, to date concentration has been placed on establishing the extent to which the source records of the company and in particular the management information system (SAP) can facilitate the interrogation and gathering of relevant data to enable fulfilment of Terms of Reference 2 and 4.

It is clear at this stage that scope limitations will arise due to inter alia, the restricted business configuration of the SAP system which has limited data interrogation capabilities required for an entity of the size of IE. This will impact on the Terms of Reference and is currently under consideration. In order to fully establish what information is capable of being extracted for review, further meetings with IT staff, are scheduled. Prior to this element of the assignment proceeding in January 2008, the scope and approach has been discussed and agreed with the Steering Group. A programme for the forensic examination has been completed under separate cover following this meeting.

Based on our findings to date it is considered that the level of work required to fully address the Terms of Reference as drafted (48 locations and periods from 2004 to date) could involve a considerable degree of additional time and resources. It has been agreed with the Steering Group that we proceed with this examination focusing on specific locations/hubs with high risk potential. This will focus the scope of the fieldwork to the locations identified as requiring specific examination and to use the findings in those locations to assist further detailed investigation.

A Report detailing our findings and recommendations on the Forensic terms of reference is expected to be issued by the end of March 2008 with updates being provided on an on-going basis.

We would like to express our appreciation to the management and staff of IE for the time and co-operation afforded to us during the course of our review to date. In general we are receiving the cooperation and assistance of Company personnel. Any exceptions to this will be discussed with the Steering Group. We are endeavouring to work within the constraints of staff availability and acknowledge in particular the assistance of [REDACTED] in facilitating the considerable volume of meetings and information documentation requests necessary to fulfil our terms of reference to date.

2. EXECUTIVE SUMMARY

Following the receipt and review of a number of internal reports we have noted that management are currently engaged in a system review of a number of areas. Initiatives are ongoing to engage management at Divisional level in order to implement improvements in compliance throughout the Company.

Our findings and recommendations are intended as constructive input to that process. The findings below are presented under the headings of:

- **IMSN Procurement System Review;**
- **IMSN Procurement Walkthrough Testing; and**
- **Management of Stock**

Our findings are based on our Programmes of Work that are detailed in **Appendices 4, 5 & 6**. Both findings and recommendations are presented in further detail in **Appendices 4, 5 & 6**.

To assist an appreciation of our findings under the various areas reviewed and considering the volume and diversity of personnel we have engaged with in the course of our work to date, we commence this summary with a number of key findings intended to assist perspective on the issues to be addressed.

1. Despite the existence of documented compliance procedures, on-going non-compliance with these procedures has been present within all Divisions subject of our review going back some time. This is evidenced within the Group Internal Audit reports of July 2007 and December 2007 and also the Cost Audit report of June 2005. Ongoing non-compliance is confirmed from the results of our transaction testing in November - December 2007. The on-going non-compliance revealed in our transaction tests, which is mirrored in results of the various Internal Audit Reports, is symptomatic of a more fundamental system deficiency.

The manner in which the current IMSN Procurement process operates is more akin to a system that records and processes purchase transactions rather than applying a Business-

based Procurement Strategy. This is resulting in focus being lost on the key procurement activities necessary in an organisation of this spend and transaction volume.

Our findings indicate that a greater appreciation of Procurement Strategy and System Design through to implementation of Procurement Policy is required in the areas under review. The implementation of Procurement Strategy should then be driven by senior management throughout the organisation, from the top down to the lowest level, as part of a co-ordinated roll-out plan and approved by the Board.

A feature of a Best Practice Procurement Model would be significantly more focus on supplier engagement and control outside of the tendering process, than currently exists.

A comparison of the current procurement model in place under our review to a 'Best practice' Centre-led Procurement has been outlined in brief in **Appendix 9**. Some of the benefits obtained with such a 'Best Practice Model' are also outlined in **Appendix 10** and could be used to provide direction for future areas of focus.

2. There is requirement for induction and formal training of procedures for those occupying new and existing positions in **all** areas under review. This is evident in particular where there is incidence of recent staff turnover in key positions of the IMSN procurement cycle (i.e. clerical officers), with new incumbents uncertain as to the nature and extent of their duties. Linked to this is a query over the adequacy of skill sets and/or training afforded and the absence of detailed job specifications setting out the parameters of the role. Based on feedback received from various workshops and questionnaires, it is clear that there is a significant requirement for education and training both at a business and systems level. There is also a need for upskilling of staff at different stages within the procurement chain, in order to strengthen the procurement chain.

In both the review of the IMSN procurement and stock systems, it is seen as important that coupled with induction and training procedures would be a rigorous independence, compliance and assurance-checking regime, where instances of non compliance and discrepancies are seen to be pursued to the fullest, irrespective of the nature of the breach

or discrepancy, to obtain satisfactory explanations as to why the discrepancy occurred. This is currently not happening to a satisfactory level. It is clear that many of those responsible for breaches at the transaction level are capable of compliance as revealed in questionnaire responses and are aware of the compliance procedures. Additional staff resources with appropriate skill sets maybe required to achieve this as part of the implementation of a Procurement Audit process.

Currently there exists a breakdown of procedural knowledge of SAP and basic controls. Recent efforts are being made to introduce more controls however these initiatives are concentrated at the lower transaction compliance level.

In addition, it is apparent for the areas under review, that the current I.T. system is not being utilised to perform an audit of the procurement process. The SAP system, in this respect, is being under-utilised.

3. It is apparent from our fieldwork within the area of stock, that explanations for discrepancies arising are not being independently investigated to a satisfactory extent. Considering recent serious breaches our finding is made in the context of promoting more familiarisation with documentary procedures, both existing and to be introduced, in conjunction with a focus on **enforcement** of procedures dealing with non compliance where breaches are subsequently encountered. This applies throughout all Divisions and locations reviewed. This would require additional dedicated stock control personnel to implement.
4. Generally compliance is good in relation to the implementation of recommendations in the Deloitte report for Stock Inventory Management in the Portlaoise Depot. However the compliance with stock control procedures at line-side is poor with significant exposure to unauthorised breaches by line-side personnel. One particular area identified is the lack of planning and documented evidence of materials expected planned to be taken up out of the ground at line side. Where no documentation of expected planned materials exists, reconciliation can be difficult, if not impossible to carry out.

5. The potential risk and cost to the Company of the absence and/or systematic non compliance with appropriate Procurement and Stock management procedures can take a number of forms. These include :
- Loss of value-added opportunities and economies to be gained in the market place from co ordination of very substantial purchasing power within the Divisions throughout the company.
 - The actual cost of known (and unknown but suspected) breaches of procurement culminating in procurement fraud on the Company by internal personnel either acting alone or in collusion with external suppliers.
 - Potential exposure to claims of discrimination and possible litigation from unsuccessful suppliers of services to the Company, who become aware of subsequent non compliance with tender conditions by competitors, suppliers arising either by lack of internal procurement control procedures or active unauthorised collusion with a successful supplier by company employees.
 - The potential impact and possible cost by way of claw back of Grant Aid arising from grant condition breaches by external agencies to include Grant Agencies and other suppliers of external funding to the Company.
 - Reputation risk.

IMSN PROCUREMENT SYSTEM REVIEW FINDINGS

The manner in which the current IMSN procurement process operates is more akin to a system that records and processes purchase transactions rather than applying a business-based procurement strategy. IMSN procurement has become engrossed in administration around the tendering process such that other key procurement activities are not being addressed. The administration work is causing time constraints for key personnel resulting in focus being lost on the key procurement activities necessary in an organisation of this spend and transaction volume.

It is apparent, for the areas under review, that the current I.T. system is not being utilised to perform an audit of the procurement process. The SAP system is being under-utilised.

Procurement, within the areas reviewed, is regarded as a necessary but subsidiary activity within the company. We recommend the empowerment of the procurement process through senior executive management representation, the design and establishment of a single Corporate Procurement Structure with additional skill resources and training where required to resource this structure.

These comments summarise the specific findings listed below.

Review of the existing procurement organisational structures in operation

(See Appendix 4, Page 5)

Finding: There is no one corporate procurement organisational structure which exists and delivers a standard process of procurement throughout the organisation, outlining the roles and responsibilities of each individual along the procurement chain.

Recommendation: See Appendix 4: Recommendations 1 & 2

- Create one Corporate Procurement Organisation Structure;
- Appoint a Head of Procurement to this structure; and
- Clearly establish procurement authority and responsibility.

Procurement Organisational Compliance within Iarnród Éireann

(See Appendix 4, Page 6)

Finding: There is no one corporate **Procurement Strategy** document which exists that sets out a clear framework for procurement throughout the company that meets all compliances both internal and external and sets a clear focus on achieving value. While a form of strategy document does exist within another Procurement Department of the organisation, this has not been applied to the area under review. As an illustration, attached at **Appendix 7** is a strategic and operational document that is in place in areas outside of our review

Recommendation: See Appendix 4; Recommendations 3 & 4

- Have the Head of Procurement and external consultants, if required, review the procurement needs of the business and identify a procurement model which represents best practice for board approval and implementation; and
- Create a Corporate Procurement Strategy document.

Finding: An **Operational Procurement** document does not exist.

Recommendation: See Appendix 4; Recommendations 3 & 4

- We would recommend this document be prepared by the Head of Procurement only after the Procurement Strategy document has been finalised. The Operational Procurement document should represent a work plan for the procurement organisation and it should ensure that the organisation is operating efficiently, illustrating clearly how the procurement function is deployed throughout the organisation.

Procurement Operational Requirements within SE&T, New Works and Infrastructure Maintenance (See Appendix 4, Page 7)

Finding: The procurement activity is consumed completing the administration duties regarding tendering rather than concentrating on key purchasing tasks.

Recommendation: See Appendix 4: Recommendation 5

- We recommend the review of current activities of the IMSN procurement department, identifying the activities currently being completed on a daily basis. A comparison should then be carried out on what activities would prove more effective and implement a best practice model, taking account of the recommendations.

Procurement Spend Classification within SE&T, New Works and Infrastructure Maintenance (See Appendix 4, Page 8)

Finding: The IMSN Procurement Department in Inchicore is not conducting any high level analytical reviews of spend, commodity, material group, vendor, pricing and market analysis.

Recommendation: See Appendix 4; Recommendation 7

- The development of exception reports which would assist in the analytical review of procurement expenditure and help identify areas of non-compliance which need further investigation, again taking into account the recommendations.

Procurement Knowledge Development within SE&T, New Works and Infrastructure Maintenance (See Appendix 4, Page 11)

Finding: Procurement skill sets and knowledge within the business organisation has been highlighted as a concern both from the procurement workshops and walkthroughs conducted.

Recommendation: See Appendix 4: Recommendation 10

- We recommend that within a new Procurement Development programme, training should include procurement policy, procedures, best practice, and compliance requirements.

Procurement Department skill-sets within SE&T, New Works and Infrastructure Maintenance (See Appendix 4, Page 12)

Finding: Existing skill-sets within IMSN procurement limit the ability to create a best practice procurement model and also limit the ability to proactively identify areas of risk within the current process. Resourcing of appropriate skill sets to implement the above recommendations requires to be reviewed by senior management.

Recommendation: General

- We recommend that the inefficiencies within the existing IMSN Procurement Model be addressed through the recommendations.

Procurement Efficiency Measurements (KPIs) within SE&T, New Works and Infrastructure Maintenance (See Appendix 4, Page 13)

Finding: There are no key performance indicators (KPIs) that exist to indicate the performance of the key procurement activities, such as critical exception reports. KPIs are key management tools established to monitor large volumes of data through reporting indicators used to identify key areas of performance within the organisation's procurement process.

Recommendation: See Appendix 4; Recommendation 14

- We recommend the identification of relevant KPIs for the organisation (to be outlined within an Operational Strategy Document). Subsequently, daily/weekly/monthly reports to identify and analyse these key areas of procurement performance should be prepared and reviewed.

**SAP IT review within SE&T, New Works and Infrastructure Maintenance
(See Appendix 4, Page 13)**

Finding: SAP system skill sets within IMSN procurement are below what would be expected for an organisation involved in such high levels of spend value and volume.

Recommendation: See Appendix 4; Recommendations 15 & 16

- We recommend the creation of a Procurement and Development programme which involves all functional and professional staff involved in the procurement process. This training should include SAP Modules such as – Materials Model, Financial Model and Projects Model.

Finding: SAP is under-utilised within the enterprise and extended supply chain. This has led to inefficiencies and an inability to conduct analytical reviews of spend. Technological integration with high volume third party vendors i.e. the use of electronic SAP Purchase Orders (POs) and automatically emailing or faxing of POs are just some of the automation which exists in the current market but are not in use.

Recommendation: See Appendix 4; Recommendations 15 & 16

- We recommend the review of the current SAP utilization within the business environment and its extended supply chain. We also recommend that staff be educated regarding the potential of SAP and how it can be utilized within the specific business environment of procurement.

The recommendations above and further details in relation to the IMSN Procurement System Review are included in **Appendix 4** to address the above issues.

IMSN PROCUREMENT WALKTHROUGH FINDINGS

Positive Areas Identified

- We understand that a group has been established to draft a Procurement Operational Document for Infrastructure Maintenance and SE&T. It is not clear as to whether this will also apply to New Works. We advise that account is taken of our recommendations under the IMSN Procurement System Review findings.
- A new procedure was introduced in September 2007 in relation to the A1 and A2 releases, relating to both Infrastructure Maintenance and SE&T. This should help strengthen the approval process for work carried out in these areas, following a more comprehensive review of the procurement process.
- A labour database was developed in June 2007, containing the approved labour rates. Prior to this, we understand that there was no pre-approved rates for labour work. We understand that this database is relevant to both Infrastructure Maintenance and SE&T. Again, this is helpful, but should be reviewed in the context of our broader recommendations.

Exceptions Noted

Inadequate Documented Procedures

(See Appendix 5, Page 4)

Finding: Detailed operational procedures in relation to processing Infrastructure Maintenance, SE&T and New Works Construction Unit projects are currently not adequately documented.

Finding: Detailed operational procedures in relation to processing of mini-tendering are not adequately documented.

Recommendation: See Appendix 5: Recommendations 1, 2, 3 & 4

- We recommend that a formal operational manual should be developed setting out the procedures required to be followed for the procurement of Infrastructure Maintenance, SET and New Works Construction Unit projects.
- Once these procedures have been finalised, they should be circulated to the relevant staff members, reviewed on a regular basis and updated as and when required. These should also include the mini tendering procedures.

Staff Training Requirement

Finding: Our meetings indicated that formal training did not take place for all staff members on appointment to their role in the procurement area.

Recommendation: General

- We recommend that all new staff should be provided with adequate training, which should also include the required training on SAP.

Non-generic standardised documentation

Finding: In general, we observed that documentation was submitted by suppliers in a non-generic format which made compliance difficult for the Company. Within other large organisations it is accepted practice for the organisation to communicate standard procedures and documents to main/high volume approved suppliers. Documentation not supplied in that form should be rejected at the outset by the company.

Detailed findings as a result of transaction testing

Finding:

- Procedures had not been followed and exceptions were noted for the majority of transactions selected for walkthrough for Infrastructure Maintenance, SE&T and New

Works Construction Unit. These issues relate to both plant hire and contracted labour in Dublin, Limerick and Athlone. A summary of these exceptions are as set out below.

Instances were noted based on the transactions selected, where:

- Requests for work had not always been communicated to the Divisional offices on a timely basis.
- Requests are not formally documented.
- It was difficult to determine who had requested the work as these details were not always included on the request form.
- There was no evidence that the recommended number of quotations, as set out in the Policy and Procurement Manual, had been obtained or that a value for money exercise had occurred prior to the Contractor being selected.
- A contractor was selected by an Inspector without prior involvement of the supervisor (i.e. ADE). From a review of a note on file the Inspector had requested the plant directly from the contractor,
- The required forms (i.e. the 'Request for Plant and Machinery Hire' form etc) were not always completely and/or accurately completed and/or completed on a timely basis.
- Problems were encountered in relation to the calculation of the value of plant requested as a result of incomplete requests being submitted to the Divisional Offices.
- Analysis was not provided to support the valuation of the work.
- Rates included on the Divisions database were not accurate up to date.

- There was a lack of documentary evidence of review and approval at the appropriate levels.
- Service Entry details were based on pro-forma invoices received after the work had been completed rather than being based on an original request prior to the work commencing.
- The quality of supporting timesheets and/work dockets and the level of information included on these documents varied between Contractors from comprehensive detail to little or no detail.
- Differences arose between the original request supplied by the Inspector and the invoice and timesheets/work dockets received from the Contractor in relation to the value, type of plant and labour requirements. There was no note/explanation on file to support the differences.
- Contractors' timesheets/work dockets had not always been signed by an IE representative.
- Contractors' invoices had been submitted to the Divisions, which were not accompanied by any supporting timesheets and/work dockets.
- Instances were noted where mini-tendering procedures had not been complied with.
- There was inadequate segregation of duties.

Detailed recommendations as a result of transaction testing

In relation to our detailed findings, the following recommendations should be considered for implementation:

Recommendation: See Appendix 5: Recommendations 106 & 108

- A review should be carried out on the various forms currently in operation at the Divisions to consider the layout and content. This will help ensure that the agreed forms are adequate, easy to use complete and provide only and all the relevant information.

Recommendation: See Appendix 5: Recommendation 107

- The required forms should be completed by the relevant individuals on a timely basis and should contain sufficient detail about the request for work. The formal Operational Manual (to be drafted) should clearly set out the required level of information required to be included on the request forms.

Recommendation: See Appendix 5: Recommendation 109

- The review and approval of all steps of Infrastructure Maintenance and SE&T and in the New Works Construction Unit's procurement process should take place at the appropriate level and should be adequately documented on file. The levels should be clearly set out in the Operational Manual.

Recommendation: See Appendix 5: Recommendations 14, 26, 35, 46, 65, 74

- Standard timesheet/delivery dockets should be developed and issued to all contractors. Certain key information should be required to be included on all delivery dockets/timesheets/invoices submitted by contractors to ensure that all information is available to allow a three way check between the original request, the invoice and the supporting timesheets/work dockets.

Recommendation: See Appendix 5: Recommendation 15

- Only invoices that are fully supported by accurate timesheets and in the required format should be approved for payment. Supplier engagement on the format acceptable to the Company will be required.

Recommendation: See Appendix 5: Recommendations 38, 67, 97, 16

- Only invoices that can be reconciled back to the original request should be approved for payment. Where there are additional requirements after the original request has been

submitted to the Divisional Office, these should be documented and sent to the Divisional Office to facilitate the reconciliation of the invoice to the supporting documentation to the original request.

Recommendation: See Appendix 5: Recommendations 37, 62, 66

- A review should be carried out of the plant hire and labour databases to ensure that the databases are accurate and up to date in relation to contractor codes, descriptions and rates.

Recommendation: General

- Consistent procedures should be followed across all Divisions in relation to the forms required to be completed, together with the roles and responsibilities of all relevant IE staff. Instances should not arise where inadequate segregation could exist.

Recommendation: General

- Responsibility should be assigned to the appropriate individuals to monitor compliance of the procurement procedures. The appropriate action should be taken where non compliance is noted.

Inconsistencies were noted in the IMSN procurement process between and across Divisions.

In our view there are a variety of reasons for these findings:

- There is a lack of training / education in operation in the area of procurement
- There is a lack / absence of adequately documented procedures
- There is little evidence of active supervision or monitoring of procurement compliance currently in place

Detailed recommendations are included in **Appendix 5** to address the above issues.

MANAGEMENT OF STOCK FINDINGS

Positive Areas Identified

- On-going efforts of the Materials Manager in Infrastructure and stock counters to improve stock accuracy.
- Efforts of certain personnel in improving the manner in which stock is stored in Portlaoise Depot and the system put in place to accurately record the receipts from Line-side with the help of the team leaders and Superintendent.
- No issues of non-compliance were identified in relation to transfers of stock **from** Portlaoise Depot.

Exceptions Noted

Portlaoise Stock: Movement in - Receipts from Line-side

(See Appendix 6: Page 5)

Finding: There is substantial evidence of non-compliance with procedures in relation to receipts **into** Portlaoise Depot from line-side. Instances were noted of differences in the recording of 1) quantity of stock, 2) classification of stock and 3) measurement of stock from what was sent to Portlaoise Depot. For instance, the quantity of sleepers received into Portlaoise Depot would not agree with what was stated on the 'Material Advice Receipt Note' related to that stock.

Recommendation: General

- We recommend that standard documentation for all stock movements be developed as well as further training on documentation procedures for all involved.

Finding: Significant non-compliance was noted in the transaction testing carried out on materials transferred into Portlaoise Depot. Please refer to **Appendix 6** for a breakdown of the non-compliance.

Recommendation: See Appendix 6: Recommendation 3

- We recommend that an independent check of what the Inspector has recorded as being sent to Portlaoise is carried out, for example, by an ADE, prior to despatch to Portlaoise.

Portlaoise Stock: Receipts from Waterford

(See Appendix 6; Page 7)

Finding: There is no standard stock movement documentation to record stock transferred from Waterford stores to Portlaoise Depot inventory.

Recommendation: See Appendix 6; Recommendation 6

- We recommend that a standard document be put in place to record the transfer from Waterford stores to Portlaoise Depot, as applies to other locations.

Portlaoise Stock: Security of Stock at Portlaoise

(See Appendix 6; Page 8)

Finding: Clarification was sought on security procedures in Portlaoise depot. From observations the external security agents do not appear to have any formal role in the checking of goods inwards/outwards from the Depot. Based on questionnaires returned, various accounts have been received on the role of the external security company and their duties. As an independent entity, security companies employed in this function can and do form an important element of internal control on the movement of stock from Depots like the Portlaoise Depot.

Recommendation: See Appendix 6: Recommendation 7

- We recommend a full review of Security Procedures and the role of the external security company engaged at the Portlaoise Depot with the output being a documented Report on

their responsibilities for control of stock movements of **all** entry exit points to the Depot. We observed that there were two entry exit points at Portlaoise Depot but were informed that there was a third entry/exit point at another part of the site. Based on this review, amendments to the terms of engagement for the security company may be appropriate to expand their role and duties for checking goods inwards and outwards from the Depot. All security measures introduced should be subject to audit by management on a periodic basis.

Line side Stock: Materials Taken Up

(See Appendix 6; Page 9)

Finding: There is no specific document to record the 'planned' removal of materials when track is being taken up to be used for comparison against the 'Materials Taken Up' form for what is actually removed.

Recommendation: See Appendix 6; Recommendations 8 & 9

- We recommend that a standard document be put in place to record what is expected to be taken up, to allow a comparison with what actually is taken up as when no documentation of expected/planned materials exists, reconciliation can be difficult, if not impossible to carry out.

Line side Stock: Materials Used

(See Appendix 6; Page 11)

Finding: Issues in IE Stock reports highlight incidences where materials are taken up out of the ground yet are not recorded on SAP

Recommendation: See Appendix 6; Recommendation 15

- We recommend all stock forms be sent to the Divisions on a weekly basis.

Line side Stock: Materials Reclassified

(See Appendix 6; Page 12)

Finding: Issues in IE Stock reports highlight incidences where:

- a. Materials Reclassification procedures are not followed; and
- b. Dismantled panels are not being reclassified into sleepers and rail respectively.

Recommendation: See Appendix 6; Recommendation 17

- We recommend that reclassification procedures be followed in accordance with the Iarnród Éireann *"Policies and Procedures for the Control of Infrastructure Linestocks"*.

Stock Takes

(See Appendix 6; Page 13)

Finding: Nationwide counts of line-side stock are carried out by Per Way Inspectors (PWIs), and not counted by independent Iarnród Éireann Representatives. Therefore PWIs can return stock sheets based on what they know to be recorded on the SAP system irrespective of what the actual count reveals.

Recommendation: See Appendix 6; Recommendation 19

We recommend that both nationwide and cycle line-side stock counts be carried out by persons independent to the Per Way Inspector, or if there are resource limitations that random independent verification of nation wide counts takes place.

Finding: From our review of discrepancies in nationwide counts, whilst queried, there is no evidence to verify that the explanations given by those responsible are in fact, an accurate explanation. Similarly, in relation to stock cycle counts, when discrepancies are identified, explanations are obtained from those responsible. However it is not clear whom is responsible for following up at Divisional level with verification of the accuracy or reasonableness of the explanation provided for the discrepancy.

Recommendation: See Appendix 6: Recommendation 23

We recommend additional resources, within the Materials Management Unit, be added to provide more comprehensive independent monitoring.

Movement in - Raw Materials

(See Appendix 6: Page 15)

Finding: Not all raw materials delivered into Portlaoise Depot are weighed on the weighbridge; therefore reliance is being placed on the supplier for a correct account of goods being delivered.

Recommendation: See Appendix 6; Recommendation 24

We recommend that sand, gravel and cement be weighed on delivery into the Portlaoise Depot. (As and from December 2007 all raw materials are now being weighed as witnessed by Baker Tilly Ryan Glennon staff in January 2008).

Recommendations are included in **Appendix 6** to address the above findings.

3. TERMS OF REFERENCE & SCOPE OF THE ASSIGNMENT

The Objectives of the review of IMSN Procurement and Internal Control Systems were set out in five Terms of Reference detailed in **Appendix 1**.

In scoping the scale and programme of work, a full review of procurement procedures was required at each of the locations throughout the Infrastructure Maintenance, SE&T and New Works Divisions where there is procurement authority to bind the Company.

The locations are summarised as the four main locations of Dublin, Limerick Junction, Athlone and Portlaoise as the hub for stock maintenance.

Together with;

AREA	NO. OF LOCATIONS
Track	28 locations
Signalling	6 locations
Telecoms	4 locations
The procurement section at Inchicore as the central hub for procurement for the division.	
New Works	
Total of 48 Locations	

We concentrated on the four main hub locations, taking a top down approach and carried out a detailed review of the high volume areas for procurement and for stock movement.

The list of locations visited are as follows:

- Inchicore
- Portlaoise Depot
- Athlone
- Limerick
- Connolly

- Mullingar
- Oriel Street
- Heuston
- Pearse
- Wicklow (line-side)
- Wexford (line-side)

Documentary evidence was gathered at Divisional level to enable a comprehensive systems review covering all Per Way locations.

In all, circa 100 meetings/interviews have taken place in the above locations with various individuals. These meetings are summarised in **Appendix 2**.

It is intended that for our detailed review of Terms of Reference 2 and 4, that we will carry out detailed transactions testing within other locations.

4. PROGRAMME OF WORK

A programme of work was formulated for both the IMSN Procurement System Review and IMSN Procurement Walkthrough as well as for the review of the Management of Stock. The programmes of work for these areas are detailed out in **Appendices 4, 5 & 6**.

To briefly outline the programme of work undertaken, each area covered has been spilt into three phases:

- Preparatory Phase
 - Information gathering and review
- Fieldwork Phase
 - Meetings
 - Questionnaires
- Reporting Phase (including Interim Reports)

Third Party Verification

As part of our fieldwork we are recording meetings with key management and staff and where necessary can revert to certain individuals following the interviews with a summary of what has been discussed. This allows us to verify our findings and provides the opportunity for the interviewee to amend or clarify points arising.

In both the areas of IMSN Procurement System Review and Review of Management of Stock, questionnaires were sent to relevant personnel requesting information and also inviting any comments or recommendations that they may have about the system at present. There was a 100% response to all issued procurement questionnaires circulated and as at the date of this report 93% have returned questionnaires in relation to stock. There are three stock questionnaires outstanding. The findings from the questionnaires in relation to the IMSN Procurement System Review and Management of Stock are detailed in **Appendix 4 and 6** respectively.

We have not undertaken any outside third party verification procedures to date as this element is more appropriate to the Forensic element of the assignment.

5. DETAILED FINDINGS AND RECOMMENDATIONS

The detail of the findings and recommendations summarised in the Executive Summary are presented in the attached appendices and cover the areas of IMSN Procurement System Review, IMSN Procurement Walkthrough Testing and a Review of the Management of Stock.

Under the detailed findings of procurement, there are comparison findings between the three Divisions of Dublin, Limerick Junction and Athlone, together with high level common findings across the three Divisions.

6. CONCLUSION

Systems review fieldwork was completed in January 2008. Our finalised Interim Report takes account of feedback and commentary from the Steering Group on the draft Interim Report.

Clarification and agreement has been provided on the scope and focus of the forensic examination element of our review. We are now proceeding with our Forensic Examination Programme.

At the point that the Interim report is finalised, a presentation can be provided to summarise the findings to the Steering Group and other appropriate representatives as advised.

BAKER TILLY RYAN GLENNON

DATE: _____

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APPENDIX 1

TERMS OF REFERENCE

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TERMS OF REFERENCE

TERMS OF REFERENCE:

Our terms of reference were agreed with the Steering Group on the 16th July 2007 and our set out as follows:

1. Undertake a full review of the current system of procuring plant hire and contracted labour to include the authorisation protocols, monitoring processes and transaction validation involved. This review will take into account work previously undertaken in this area by Iarnród Éireann.
2. Carry out an examination of conduct in the acquisition, deployment and management of services, resources and plant/equipment procured during the period from January 2004 to date and the relationships with contractors of goods and services to the Company. Assess the extent of actual loss or misappropriation and assess where potential future risk arises.
3. Carry out an examination of the management of line-side materials e.g. Rails and sleepers, a particular focus to be placed on the movement and accounting for stocks into and out of the Portlaoise Sleeper Plant as the hub distribution and stockpiling centre.
4. Identify and determine responsibility for any breach in procurement policy specifically to identify any neglect to duty or lack of competence in the acquisition of goods and services and to report on areas where loss or misappropriation has occurred and the associated value and comment on where potential future risk arises.
5. Produce a comprehensive report and therein make relevant comments, observations and recommendations in each of the foregoing areas of focus.

IARNRÓD ÉIREANN – PROCUREMENT & INTERNAL CONTROL INVESTIGATION
Interim Report to the Steering Group Committee –31st January 2008
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APPENDIX 2

PERSONNEL INTERVIEWED


PERSONNEL INTERVIEWED

Meetings With:	Title	No of Meetings
Group Internal Audit Committee Meeting		1
Steering Group Committee Meeting		6

Chief Executive, Iarnród Éireann	On-Going
Director, Strategy & Business Development	On-Going
Manager, Cost Audit & Efficiency Unit	On-Going
Chief Engineer, Infrastructure	1

Procurement Manager	5
Finance Manager	4
Materials Manager	4
SAP Personnell, Materials Management	4
Stock Facilitator, Portlaoise	4
Accounts Payable Clerical Officer	3
Divisional Accountant, Athlone, Infra/Main	2
Divisional Accountant, Infra/Main & SE&T	2
Head of IT, CIE	2
Manager of Procurement	2
Projects	2
Projects	2
Purchasing	2
SAP Support Management	2
Signalling Engineer, SE&T	2
Accountant	1
Accounts Payable	1
Accounts Payable	1
Accounts Payable - Cost Audit and Efficiency unit	1
ADE, Athlone, Infra Main	1
ADE, Heuston, Infra Main	1
ADE, Infra Main	1
Business Applications Systems Mgr	1
Clerical Officer, Athlone, Infra Main	1
Clerical Officer, Infra Main & SE&T	1
Clerical Officer, Infra Main & SE&T	1
Construction Unit - New Works	1
Director, New Works Projects	1
Director, SE&T New Works & Maintenance	1

PERSONNEL INTERVIEWED

Meetings With:	Title	No of Meetings
	Divisional Engineer, Limerick & Athlone	1
	Executive Buyer	1
	Finance Manager	1
	Financial Accountant	1
	Financial Controller	1
	Head of Group Internal Audit	1
	Inspector, Athlone, Infra/Main	1
	Inspector, Infra Main & SE&T	1
	Inspector, Pearse Station, Infra/Main	1
	Internal Audit	1
	Plant Co-Ordinator, New Works	1
	PO Executive	1
	PO Executive	1
	PO Executive	1
	PO Executive	1
	Procurement Manager	1
	Production Manager	1
	Purchasing	1
	Raw Materials Mgr, Portlaoise	1
	SAP Personnel	1
	SAP Personnel	1
	Senior Purchasing Executive	1
	Senior Purchasing Executive	1
	SE&T Finance Manager	1
	SE&T Inspector	1
	SE&T Inspector, Mullingar, SET	1
	SE&T Inspector, SE&T	1
	SE&T New Works Construction Manager	1
	Signalling Engineer, SE&T	1
	Stock Facilitator, Portlaoise	1
	Stock Processor, Limerick Junction	1
	Stock Processor, North Wall	1
	Telecom Maintenance Engineer	1
	Trackwork Installation Manager, Heuston, New Works	1

APPENDIX 3

INFORMATION REQUESTED

INFORMATION REQUESTED AND RECEIVED

	Requested	Received
1 A detailed organisational chart identifying reporting lines and responsibilities within each division	31-Jul-07	Aug-07
2 Names and day to day duties of the relevant individuals with job specifications, if available		Not Avail.
3 Chief Executive Organisational Chart	31-Jul-07	Aug-07
4 Chief Engineer Department	31-Jul-07	Aug-07
5 Finance Department	31-Jul-07	Aug-07
6 Procurement Department	31-Jul-07	Not Avail.
7 New Works	31-Jul-07	Aug-07
Outline specification on the following systems as they apply to:		
8 Procurement Department	31-Jul-07	Not Avail.
9 Purchase Order	31-Jul-07	Aug-07
10 Stock Control	31-Jul-07	Oct-07
11 Accounts Payable	31-Jul-07	Not Avail.
12 Budgeting	31-Jul-07	Not Avail.
13 Planning	31-Jul-07	Not Avail.
Planning procedures in the area of:		
14 New Works	31-Jul-07	Aug-07
15 Infrastructure & Maintenance	31-Jul-07	Aug-07
16 SE&T	31-Jul-07	Aug-07
Budgetary control documentation of:		
17 New Works	31-Jul-07	Aug-07
18 Infrastructure & Maintenance	31-Jul-07	Aug-07
19 SE&T	31-Jul-07	Aug-07
Project management documentation of:		
20 New Works	31-Jul-07	Aug-07
21 Infrastructure & Maintenance	31-Jul-07	Aug-07
22 SE&T	31-Jul-07	Aug-07
23 The Company's procurement procedures manual or equivalent documentation.	31-Jul-07	Aug-07
24 The Company's stock control procedures manual or equivalent	31-Jul-07	Aug-07
25 Evidence known to the company of breaches	31-Jul-07	Aug-07
26 Individuals involved which will inform and assist the review.	31-Jul-07	Aug-07
Internal project reports and management information produced by the Company at regular intervals:	31-Jul-07	
27 New Works	31-Jul-07	Oct-07
28 Infrastructure & Maintenance	31-Jul-07	Oct-07
29 SE&T	31-Jul-07	10-Dec
30 Brief Summary outlining Disciplinary Industrial Relations procedures	31-Jul-07	Aug-07
31 Brief Summary outlining remuneration structure for operators.	31-Jul-07	Aug-07
32 [REDACTED] Holiday planner for the department - in order to schedule meetings	31-Jul-07	Aug-07
33 [REDACTED] Contact details, addresses & directions to various locations to be visited.	31-Jul-07	Aug-07
34 [REDACTED] 'One-page' document illustrating procedures to be followed for procurement	31-Jul-07	Aug-07
35 [REDACTED] Excel file detailing colleagues for each requisition release levels	31-Jul-07	Aug-07
36 [REDACTED] PP presentation	31-Jul-07	Aug-07
37 [REDACTED] Excel file showing Requisitions values by business segments	31-Jul-07	Aug-07
38 [REDACTED] 2004 Financial Statements	31-Jul-07	Aug-07
39 [REDACTED] 2005 Financial Statements	31-Jul-07	Aug-07
40 [REDACTED] 2006 Financial Statements	31-Jul-07	Aug-07
41 [REDACTED] Letter of Representation and Management Letters for the years 2004, 2005 & 2006	31-Jul-07	15-Oct-07
42 [REDACTED] Internal Control reports 2004, 2005		15-Oct-07
43 [REDACTED] Reports to ARG 2004, 2005, 2006		15-Oct-07

INFORMATION REQUESTED AND RECEIVED

	Requested	Received
██████████ - Procurement		
1 Framework agreement in place	17-Sep-07	05-Oct-07
2 Pre-Qualification Questionnaire	17-Sep-07	05-Oct-07
3 Latest draft of new framework	17-Sep-07	Not Avail
4 Contracts for SET Maint New Works	17-Sep-07	05-Oct-07
5 'Mini-tender' example	17-Sep-07	05-Oct-07
6 Procurement Evaluation Criteria - Award criteria	17-Sep-07	05-Oct-07
7 Money being spent annually with each contractor	17-Sep-07	05-Oct-07
██████████ - Procurement		
1 Work instruction (masterfile) with flow diagrams Plant Hire Tender Process Ordering Methodology Hire Receipt	17-Sep-07	01-Oct-07
2 Contractor Labour contracts - showing procedure	17-Sep-07	01-Oct-07
3 Framework Contract for Services in SE&T		01-Oct-07
4 Plant Hire Work Instruction		01-Oct-07
5 Internal Memo re Plant Hire Control 2004		01-Oct-07
6 Plant Hire spend 2006		01-Oct-07
██████████ - New Works (Finance)		
1 Audit Workings file - Sample Test	17-Sep-07	05-Oct-07
2 Authorisation levels of New Works staff	17-Sep-07	DM to forward
██████████ - Infrastructure & Maintenance (Finance)		
1 Reconciliation documentation between budget and year end 2006	17-Sep-07	11-Oct-07
2 Breakdown of spend to each business unit level/inspector	17-Sep-07	Not Avail
3 Renewal programme per division	17-Sep-07	11-Oct-07
4 List of projects that are on-going	17-Sep-07	12-Oct-07
5 Plant Hire Report of Inspectors to Div. Engineers	02-Nov-07	BP to check
██████████ - SE&T		
1 Labour Framework currently in place	17-Sep-07	PJ to forward
2 Latest draft of new Framework	17-Sep-07	PJ to forward
3 Pre-qualification selection criteria	17-Sep-07	PJ to forward
4 SET Framework	17-Sep-07	PJ to forward
5 Latest summary reports	17-Sep-07	PJ to forward
██████████ - New Works		
1 Copy of report - July to the Board	17-Sep-07	05-Oct-07
2 Generic critical path of projects undertaken	17-Sep-07	05-Oct-07
3 KRP programme	17-Sep-07	25-Oct-07
4 List of all site offices for New Works	17-Sep-07	05-Oct-07
██████████ - Stock		
1 SAP training booklet	17-Sep-07	Aug-07
2 Details of amount of stock by loc. etc.	17-Sep-07	11-Oct-07
3 Material Requirement Planning Booklet	17-Sep-07	11-Oct-07
4 Catalogue with unique material stock code	17-Sep-07	11-Oct-07
5 Paper gone to board re UK process of steppers	17-Sep-07	11-Oct-07
6 Sheet tracks orders over #50K	17-Sep-07	DM to forward
7 Summary of stock take discrepancies reports from 2004 to date	17-Sep-07	11-Oct-07

INFORMATION REQUESTED AND RECEIVED

	Requested	Received
Group Internal Audit		
1 Internal Audit Report Testing Samples - further meeting held	26-Sep-07	11-Oct-07
New Works		
1 Power point presentation from meeting	04-Oct-07	06-Nov-07
2 Organisational Chart - received	04-Oct-07	07-Oct-07
Portfolio		
1 Back up as to why use certain suppliers for cement and chip	10-Oct-07	19-Nov-07
2 Licence agreement with DSI	10-Oct-07	19-Nov-07
3 Sleeper cost for last 3 years	10-Oct-07	19-Nov-07
4 Framework agreement of €21m for specialisms	10-Oct-07	19-Nov-07
Reports		
For the period 'Qtr ending Sept and Year To Date Oct 2007'		
Actual Spend by:		
Area	13-Nov-07	30-Nov-07
Commodity	13-Nov-07	30-Nov-07
User of goods & services	13-Nov-07	Not Avail.
By Vendor Invoice Spend		
Invoice spend by area / commodity	13-Nov-07	Not Avail.
Area/commodity/requisitioner/vendor	13-Nov-07	Not Avail.
Area/commodity/user/vendor	13-Nov-07	Not Avail.
Any other existing exception reports (KPI) within the PO-AP cycle	13-Nov-07	
Showing all invoices raised that are not matched to a P.O	13-Nov-07	Not Avail.

APPENDIX 4

PROCUREMENT SYSTEM REVIEW

- PROGRAMME OF WORK**
- FINDING & RECOMMENDATIONS**
- SAMPLE QUESTIONNAIRE & RESULTS**

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PROCUREMENT SYSTEM REVIEW – PROGRAMME OF WORK

PROGRAMME OF WORK – INFRASTRUCTURE MAINTENANCE, SE&T AND NEW WORKS (IMSN) PROCUREMENT SYSTEM REVIEW

Information Gathering and Examination through Workshops, Interviews and Questionnaires

This section of our report presents the interim findings and recommendations made in relation to the workshops and interviews conducted as well as from examining existing procurement documentation under Term of Reference 1.

The objective of our work was to establish at a high level the current model of procurement which is operating within the organisation and the quality of the information system, SAP, supporting this function. A comparison was then carried out to a Best Practice Procurement model identifying the key structural areas for improvement.

Our work consisted of the following for Infrastructure Maintenance SE&T and New Works (IMSN).

1. IMSN Procurement Model Review

- Visited the Inchicore Purchasing department and discussed the current IMSN procurement model operating within the business and staff daily activities - duties;
- Carried out a high level review of the Policy and Procurement Manual and other procurement documentation which was provided by management and functional staff;
- Carried out a workshop with procurement management and executives to document the existing procurement model;
- Issued a questionnaire sheet to IMSN procurement staff for completion;
- Documented our understanding of the procedures in place as a result of our workshops and questionnaire; and

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PROCUREMENT SYSTEM REVIEW
PROGRAMME OF WORK

- Identified issues and made recommendations for improvements which was reviewed with management for approval.

2. SAP I.T. System Review

- Visited the CIE Group IT office;
- Carried out a review of current configuration and setup of Materials Management Module and Project Module;
- Reviewed the availability of detailed reports;
- Documented our understanding of the procedures in place as a result of our workshops and questionnaires; and
- Identified issues and make recommendations for improvements which is reviewed with management for approval.

Meetings

We met with the following individuals as part of our walkthrough tests:

- Clerical Officers *2
- Procurement Managers *2
- Senior Executive Procurement Officers *2
- Executive Procurement Officers *4
- Store Manager *1
- SAP Materials Module Expert in Group IT
- SAP Financial Module Expert in Group IT
- SAP CO Module Expert in Group IT
- SAP Projects Module Expert in Group IT
- Head of Group IT
- IT Manager

Questionnaire

A questionnaire has been circulated to all procurement management, senior executives, executives and administrative staff within the IMSN procurement department, a total of 8 in all. We have gained valuable feedback which is included in this Interim Report.

Reporting

Our findings and recommendations are set out below.

Acknowledge

During the course of our workshops and fieldwork, we met with a number of personnel in the CIE Group IT and Inchicore IMSN Procurement department. We are grateful for the manner in which Iarnród Éireann staff facilitated us, for the time made available to us and also for the high level of courtesy, assistance and cooperation afforded to us at all times during the assignment.

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PROCUREMENT SYSTEM REVIEW – FINDINGS & RECOMMENDATIONS

FINDINGS & RECOMMENDATIONS

IMSN Procurement System Review findings and recommendations are covered under the following headings:

HEADING	PAGE
Review of the existing procurement organisational structures in operation.	5
IMSN Procurement Organisational Compliance within Iarnród Éireann	6
Procurement Operational Requirements within Infrastructure Maintenance, SE&T and New Works.....	7
Procurement Spend Classification within Infrastructure Maintenance, SE&T and New Works	8
Procurement Supplier Base Development within Infrastructure Maintenance, SE&T and New Works.....	9
Procurement Knowledge Development within Infrastructure Maintenance, SE&T and New Works.....	11
Procurement Department skill-sets within Infrastructure Maintenance, SE&T and New Works	12
Procurement Efficiency Measurements (KPIs) within Infrastructure Maintenance, SE&T and New Works.....	13
SAP IT review within Infrastructure Maintenance, SE&T and New Works.....	13
IMSN Procurement System Review Questionnaire	15

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PROCUREMENT SYSTEM REVIEW
FINDINGS & RECOMMENDATIONS

Review of the existing procurement organisational structures in operation.***Finding***

Our workshops and questionnaire indicated that:

- Two procurement organisational structures currently exist within Iarnród Éireann, both operating to different standards. This does not reflect best practice.
- Currently the IMSN procurement organisation lacks required high level guidance and support to ensure corporate acceptance of governing procurement policy, procedures and initiatives.

Recommendation

1. Change the current procurement structure within the organisation and rather than having two separate procurement structures in both 1) CME and 2) Infrastructure Maintenance, SE&T & New Works (IMSN) have one procurement organisation. This should in turn be integrated into the CIE Group procurement structure.
2. Create a new position as overall Head of Procurement of Iarnród Éireann. Have this position take on Board reporting duties and management of the implementation of one Corporate Procurement Strategy. To our knowledge this position does not currently exist.
3. Introduce and brand a new procurement model with a Board approved communication and appropriate change-management plan. This model would need to be designed with the specific needs of the organisation as its focus.

IMSN Procurement Organisational Compliance within Iarnród Éireann

Finding

- No Manager or Senior Executive Buyer was aware of the existence of a Corporate / Board Procurement Strategy for the Iarnród Éireann Organisation (or Infrastructure Maintenance, SE&T & New Works). A number of procurement staff who completed the questionnaire are aware of some but not all compliances which impacted on what they procured. See questionnaire result findings 1.1 to 1.6 outlined below.

Recommendation

4. Create a Corporate / Board Procurement Strategy Document for the entire organisation which sets a clear framework for procurement throughout the organisation. This will allow the Head of Procurement to draft up a Procurement Operational document which would accomplish the following:
 - A mission statement;
 - Ownership, monitoring and review;
 - Role, responsibility and functions of all procurement staff clearly defined;
 - Establishment of standard work practices for all staff involved in the procurement process;
 - Compliance to regulations – to ensure continuous compliance to current and pending legislation – and the consequences of non-compliance;
 - Procurement policy and strategy implementation;
 - The Framework of Procurement of major services – goods and partnerships;
 - The development of contract management procedures and guidelines;

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PROCUREMENT SYSTEM REVIEW
FINDINGS & RECOMMENDATIONS

- The integration of a financial management system with the procurement process;
- Integration of IT systems such as SAP and other e-procurement technologies with the procurement process;
- Supplier and other 3rd party extended supply-chain integration
- Performance measurement (key performance indicators (KPIs);
- Tendering / contracts arrangements;
- On-going monitoring and audit of procurement systems; and
- Continuous improvement review

Procurement Operational Requirements within Infrastructure Maintenance, SE&T and New Works

Here we review how the IMSN procurement operation was being managed and controlled within the area of review through established procurement operational documents.

Finding

- The IMSN procurement function is currently serving as an administration function supporting the tendering process at the expense of other key procurement activities that are not being addressed such as:
 - Systems and KPI development;
 - Implementing cost savings programmes;
 - Analytical review of spend data;

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PROCUREMENT SYSTEM REVIEW
FINDINGS & RECOMMENDATIONS

- Market analysis;
 - Benchmarking;
 - Supplier review; and
 - Audit - Compliance
- The majority of IMSN procurement staff who completed the questionnaire were not aware of the need for key operational documentation which if developed would assist them manage a high volume procurement organisation.

Recommendation

5. Review current processes for non-value activities currently being performed by IMSN procurement and establish a programme of value-added procurement activities. This would be defined in the overall Procurement Strategy document.
6. Establish key operational documentation for use within the IMSN procurement department which would establish a framework for conducting performance reviews against established targets.

Procurement Spend Classification within Infrastructure Maintenance, SE&T and New Works

Here we review procurement reporting and data analysis capabilities, within SAP, and determine what reporting tools exist to assist staff complete these tasks for data within the enterprise and extended supply chain.

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PROCUREMENT SYSTEM REVIEW
FINDINGS & RECOMMENDATIONS

Finding

- Questionnaire results indicate that the majority of the IMSN procurement management and staff do not conduct data analysis reports on spend as part of their daily tasks. This is a concern as it is not practical, with the organisation's volume and value-spend, that an appropriate review of spend could be completed other than through predefined reports. This raises concerns that this area of review is currently not being addressed within the IMSN procurement organisation and could allow for invalid transactions to be processed without notice. Currently procurement personnel spend time conducting singular supplier purchase order enquiries and are limited in their reporting capabilities.

Recommendation

7. Develop reports which would assist management and staff analyse:

- Spend;
- Understand spending patterns;
- Review status of purchase orders;
- Track spend through plant hire and labour and also material types; and
- Self audit to ensure compliance.

This work should be done in conjunction with the SAP IT team and finance team to promote a common set of standard reports within the organisation.

Procurement Supplier Base Development within Infrastructure Maintenance, SE&T and New Works

Here we review how the procurement operation manages and interacts with the organisations supplier base.

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PROCUREMENT SYSTEM REVIEW
FINDINGS & RECOMMENDATIONS

Finding

- Major key areas of supplier base development are not being utilised in the areas such as:
 - Supplier integration;
 - Implementation of a quality system;
 - Transaction documentation standardisation; and
 - Transaction inputting verification.

This is supported by other findings, illustrating that procurement are mainly involved in the administration of the tendering process and other key areas of procurement have gone unaddressed.

Recommendation

8. Develop a plan for the effective development and review of the supplier base and allocate responsibilities to senior procurement executives to achieve the goals in this plan.
9. Review and resource the skill-sets of current IMSN procurement management and their ability to proactively manage procurement resources allowing them to concentrate on value added procurement activities rather than non-value procurement administration activities.

Procurement Knowledge Development within Infrastructure Maintenance, SE&T and New Works

Our objective in this case is to determine the procurement skill-sets and knowledge within the business and how this is being developed.

Finding

- The majority of IMSN procurement staff indicated in the questionnaire that the organisation was limited in terms of procurement knowledge and in general, did not understand the implications that certain legislation such as Environmental, Health & Safety and Quality have on the procurement process. Also no procurement knowledge development programme exists.

This would be deemed a critical part of an effective procurement model. Overall procurement knowledge within the organisation is limited and poses a problem for key functional users who participate in the procurement process.

Recommendation

10. Set in place a Training and Development procurement programme which would address these issues and strengthen the procurement process. Create super user groups within key areas of potential risk and reward employees for achieving different expertise levels within procurement and SAP. Consideration would have to be given to whether current internal resources are sufficient to achieve this task.

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PROCUREMENT SYSTEM REVIEW
FINDINGS & RECOMMENDATIONS

Procurement Department skill-sets within Infrastructure Maintenance, SE&T and New Works

Here we asked the personnel within the IMSN procurement department to rank their skill-set levels within different categories.

Finding

- The questionnaire highlighted areas of concern where resources deemed themselves not to have adequate skill-sets i.e. benchmarking, market, planning and product / commodity knowledge. The areas where they felt they were strong is as a result of the tendering process which consumes the majority of their time i.e. pricing, negotiations, sourcing, selecting and SAP systems. The concern here is the lack of attention to other key areas of procurement and the potential consumption of procurement time in administration duties involved with the tendering process.

Recommendation

11. Review the potential non-value activities which consumes the buyers time in the tendering process and assign these tasks to a more junior resource thereby allowing the buyer to concentrate on more value-added activities.
12. Clearly identify areas which the buyer or procurement executive should concentrate their time and effort.
13. Set in place a programme of skills development within the procurement organisation.

Procurement Efficiency Measurements (KPIs) within Infrastructure Maintenance, SE&T and New Works

Our review examines the existence of KPIs and their use within the IMSN procurement organisation.

Finding

- No procurement KPIs exist currently within the above areas of review which would be expected to be in operation in an organisation of this size. KPIs are there to assist management measure and monitor performance or compliance within key functional areas of procurement at a high level. It allows them to create exception reports, using SAP, which would review large volumes of data and highlight variances which need further investigation.

Recommendation

14. KPIs are an important management monitoring tool which are necessary when dealing with large volumes of data. Management should establish key KPIs for procurement and ensure that they are in operation and used as a management tool.

SAP IT review within Infrastructure Maintenance, SE&T and New Works

Here we review how SAP is configured within the Materials Module (MM) & Financial Module (FI) and how the business is utilising the current SAP IT expertise available.

Finding

- The IMSN Procurement Department has a low level of skill-sets within SAP. This is apparent from the workgroups held with end-users and meetings with the SAP IT group. The SAP IT group are available but under-utilised by the IMSN Procurement

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PROCUREMENT SYSTEM REVIEW
FINDINGS & RECOMMENDATIONS

Department. The implications of this are the under-utilisation of the SAP application within procurement.

- A request was made for the financial and procurement reports for plant hire and labour, split by Infrastructure Maintenance, SE&T and New Works, for the years 2004, 2005, 2006 and 2007. This proved impossible to generate in SAP financials as there was no split in the ledger codes for plant hire and labour covering the above period requested. In the materials module this is also proving difficult to obtain. This information by plant hire and labour is still under review.

This will have implications for the forensic element of our review.

Recommendation

15. Set a training programme in place to address these issues.
16. Determine the procurement reporting requirements and configure SAP financials/materials module to allow for this. This requires a cross functional team to get together consisting of SAP IT group, finance and procurement to address this issue.

IMSN Procurement System Review Questionnaire

The questionnaire was designed to evaluate the procurement environment and assess the performance of the IMSN procurement department staff and management. The findings below indicate that staff and management have concerns with regard to the current procurement model and this is represented in this Report.

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PROCUREMENT SYSTEM REVIEW – QUESTIONNAIRE RESULTS

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Procurement System Review
Questionnaire Results

		Total Consolidated		
1. Procurement Compliance		Yes	No	Total
1.1 Procurement Strategy Document	Q1.1	0%	100%	8
1.5 Procurement Environmental Legislation	Q1.5	0%	100%	8
1.4 Procurement Health and Safety Legislation	Q1.4	13%	88%	8
1.3 Procurement Legislation (Local Government & EU)	Q1.3	88%	13%	8
1.6 Procurement Code of Ethics Document	Q1.6	100%	0%	8
1.2 Procurement Policy and Procedure Document	Q1.2	100%	0%	8

Overall averaged result	50%	50%
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2. Procurement Operational Requirements		Yes	No	Total
2.1 Procurement Operational Document	Q2.1	0%	100%	8
2.3 Procurement Efficiency Document	Q2.3	0%	100%	8
2.5 Procurement Risks Document	Q2.5	0%	100%	8
2.6 Procurement Quality Document	Q2.6	0%	100%	8
2.11 Procedure for Project Control	Q2.11	0%	100%	7
2.7 Procurement Organisation Structure	Q2.7	13%	88%	8
2.4 Procurement Training Document	Q2.4	13%	88%	8
2.8 Procurement Data Flow	Q2.8	25%	75%	8
2.9 Procedure for Schedule Maintenance / Procurement	Q2.9	33%	67%	6
2.10 Procedure for Unscheduled Maintenance / Procurement	Q2.10	33%	67%	6
2.2 Procurement Control Document	Q2.2	50%	50%	8

Overall averaged result	15%	85%
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3. Procurement Spend Classification		Yes	No	Total
3.1 Commodity / Material Type Determination	Q3.1	0%	100%	8
3.2 Spend Volume / Value Determination	Q3.2	0%	100%	8
3.3 Supplier Type Determination	Q3.3	0%	100%	8
3.4 Payment Agreement / Term / Type Determination	Q3.4	0%	100%	8
3.7 Market Analysis	Q3.7	0%	100%	8
3.5 Supplier Pricing Structure	Q3.5	13%	88%	8
3.6 Supplier Contract / Agreement Type	Q3.6	38%	63%	8

Overall averaged result	7%	93%
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4. Procurement Supplier Base Development		Yes	No	Total
4.5 Supplier Supply Chain Management	Q4.5	0%	100%	8
4.2 Supplier Quality System	Q4.2	13%	88%	8
4.4 Supplier Integration	Q4.4	13%	88%	8
4.6 Supplier Transaction Verification	Q4.6	13%	88%	8
4.3 Supplier Transaction Standardization	Q4.3	38%	63%	8
4.1 Supplier Base Selection	Q4.1	88%	13%	8
4.8 Supplier Engagement Procedure Definition	Q4.8	88%	13%	8
4.9 Supplier Sourcing Procedure Defined	Q4.9	88%	13%	8
4.7 Supplier Specifications For Selection	Q4.7	100%	0%	8

Overall averaged result	49%	51%
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Procurement System Review
Questionnaire Results

Total Consolidated

5. Procurement Knowledge Development		Yes	No	Total
5.2 Requisitioners	Q5.2	0%	100%	7
5.10 Environmental	Q5.10	13%	88%	8
5.7 Quality	Q5.7	14%	86%	7
5.1 Users	Q5.1	14%	86%	7
5.9 Health and Safety	Q5.9	25%	75%	8
5.3 Approvers	Q5.3	63%	38%	8
5.5 Suppliers	Q5.5	63%	38%	8
5.6 Finance	Q5.6	63%	38%	8
5.4 Buyers	Q5.4	75%	25%	8
5.8 Audit	Q5.8	75%	25%	8

Overall averaged result	40%	60%
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6. Procurement Department Key Skill Sets		Yes	No	Total
6.8 Benchmarking Knowledge	Q6.8	13%	88%	8
6.11 Supply Chain Knowledge	Q6.11	17%	83%	6
6.7 Market / Benchmarking Knowledge	Q6.7	38%	63%	8
6.6 Commodity / Product / Material Knowledge	Q6.6	38%	63%	8
6.12 Procurement Institute Certified	Q6.12	63%	38%	8
6.10 Planning Knowledge	Q6.10	71%	29%	7
6.9 Process Knowledge	Q6.9	75%	25%	8
6.2 Pricing Structure	Q6.2	75%	25%	8
6.3 Negotiations Skill Sets	Q6.3	75%	25%	8
6.13 Sector Knowledge	Q6.13	75%	25%	8
6.1 Contract Knowledge	Q6.1	88%	13%	8
6.5 Systems Skill Sets	Q6.5	88%	13%	8
6.4 Sourcing / Selection Skill Sets	Q6.4	100%	0%	8

Overall averaged result	63%	37%
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7. Procurement Efficiency Measurements (KPI)		Yes	No	Total
7.6 Strategic	Q7.6	0%	100%	8
7.1 Pricing	Q7.1	13%	88%	8
7.2 Suppliers	Q7.2	13%	88%	8
7.3 Expenditure	Q7.3	13%	88%	8
7.4 Purchasing	Q7.4	13%	88%	8
7.5 Tenders	Q7.5	13%	88%	8
7.7 Electronic Procurement	Q7.7	13%	88%	8
7.8 Systems	Q7.8	13%	88%	8
7.9 Projects	Q7.9	13%	88%	8

Overall averaged result	11%	89%
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APPENDIX 5

PT. 1

PROCUREMENT WALKTHROUGH

– PROGRAMME OF WORK

– FINDINGS & RECOMMENDATIONS

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PROCUREMENT WALKTHROUGH – PROGRAMME OF WORK

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 PROCUREMENT WALKTHROUGH
 HIGH LEVEL COMMON FINDINGS TO ALL THREE DIVISIONS

Information Gathering and Examination

This section of our report presents the draft interim findings and recommendations made in relation to the walkthrough tests conducted under Term of Reference 1.

This work consisted of a high level review of the systems, controls and procedures in place at the Dublin, Limerick and Athlone Divisions in relation to Infrastructure Maintenance and SE&T. The table below summarises the areas reviewed at each Division which we visited, based on our discussions with Divisional personnel.

DIVISION	INFRASTRUCTURE MAINTENANCE	SE&T
Dublin	Plant and labour	Labour
Limerick	Plant	Plant and labour
Athlone	Plant and labour	Plant

In addition we reviewed the New Works Construction Unit (Plant Hire & Contracted Labour) and SE&T Telecom Maintenance (Labour) and SE&T New Works (Plant, contracted labour and contracted electrical labour), which are all located in Dublin.

The objective of our work was to ensure that up to date documented procedures were in place, which represent good practice and which are being consistently applied within the Divisions and between Divisions. In order to achieve this, we carried out a walkthrough of the systems, procedures and controls in place at the three Divisions to obtain an understanding of these. We also selected transactions in each area above at each Division to ensure that work carried out had been correctly requisitioned, authorised at the appropriate level, processed correctly and paid in a fully transparent manner.

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PROCUREMENT WALKTHROUGH
HIGH LEVEL COMMON FINDINGS TO ALL THREE DIVISIONS

Our work consisted of the following:

- Visited the three Divisions and discussed the systems, controls and procedures in operation, through interview with the relevant individuals;
- Carried out a high level review of the Policy and Procurement Manual and the 'Plant Hire in the Infrastructure Divisions' document, dated August 2002;
- Considered whether documented policies and procedure existed and whether these were suitably drafted, provide for appropriate levels of segregation of duties and that tasks have been appropriately assigned;
- Carried out a walkthrough of a sample of transactions;
- Reviewed documentation as part of our walkthroughs, for example the 'Request for Plant and Machinery Hire' form, the 'Request for Requisition' form, the 'Request for Hire of contractor for Signalling & Electrical' form, SAP printouts, contractors invoices and supporting timesheets/work dockets to support our draft interim findings;
- Documented our understanding of the procedures in place as a result of our walkthrough visits and presented these to the Divisions to confirm the accuracy of our understanding of procedures; and
- Identified issues, both positive areas and areas for improvement as a result of our walkthroughs, which were also forwarded to the Divisions in order to confirm the accuracy of these issues

Meetings

We met with the following individuals as part of our walkthrough tests:

- Clerical Officers;
- Permanent Way Inspectors;
- SE&T Inspectors;

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PROCUREMENT WALKTHROUGH
HIGH LEVEL COMMON FINDINGS TO ALL THREE DIVISIONS

- Assistant Divisional Engineers;
- Divisional Engineers;
- SE&T Engineers; and
- Divisional Accountants.

Appendix 2 sets out details of the individuals we met with during our walkthroughs.

Reporting

Our findings are presented and recommendations are set out below as follows:

- **High-level common findings;**
- **Dublin Division findings;**
- **Limerick Division findings;**
- **Athlone Division findings;**
- **New Works Construction Unit findings;**
- **SE&T Telecom Maintenance findings;**
- **SE&T New Works findings; and**
- **Differences in Divisional procedures.**

Further findings and recommendations may be noted during our fieldwork under Terms of Reference 2 and 4.

Acknowledge

During the course of our walkthroughs, we met with a number of personnel at IE. We are grateful for the manner in which IE staff facilitated us, for the time made available to us and also for the high level of courtesy, assistance and cooperation afforded to us at all times during the assignment.

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PROCUREMENT WALKTHROUGH – FINDINGS & RECOMMENDATIONS

COMMON HIGH LEVEL FINDINGS TO ALL THREE DIVISIONS

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 PROCUREMENT WALKTHROUGH
 HIGH LEVEL COMMON FINDINGS TO ALL THREE DIVISIONS

HIGH LEVEL COMMON FINDINGS TO ALL THREE DIVISIONS

High Level findings and recommendations are covered under the following headings:

HEADING	PAGE
Documented Procedures	4
Mini-Tendering	5
Filing of Documentation	8

Documented Procedures

Finding

- Detailed procedures followed at the Dublin, Limerick and Athlone Division in relation to the following areas for Infrastructure Maintenance and SE&T are not currently documented:
 - The request for plant hire/labour by the Permanent Way Inspector/SE&T Inspector;
 - The approval of the request and the selection of the contractor;
 - The valuation of the work for the selected contractor;
 - The input of the details into SAP and the creation of a service entry form, where required; and
 - The receipt, review and approval of the contractor invoices and the release of the service entry.
- Our discussions with a number of Divisional personnel indicated that they had not received documented procedures when they commenced their role in the procurement area, nor did they receive any formal training.

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PROCUREMENT WALKTHROUGH
HIGH LEVEL COMMON FINDINGS TO ALL THREE DIVISIONS

We do acknowledge that a Policy and Procurement Manual, a SAP Manual and the 'Plant Hire in the Infrastructure Divisions' guideline exist. However, these documents do not adequately set out the operational procedures required to be followed in relation to the processes listed above.

In addition, the findings noted by us during our walkthrough, reflects the disparity of procedures that are currently in operation within and between the three Divisions.

Recommendation

1. We were informed by a Divisional Accountant that a group has been set up to develop documented procedures in the areas set out above. Once the above procedures are finalised, these should be circulated to the relevant staff members, reviewed on a regular basis and updated as and when required.
2. This document should also set out the arrangements to be followed should certain staff not be available to carry out specific tasks (i.e. during holidays).
3. All proposed procedures should be introduced in the context of the broader recommendations on a procurement model contained elsewhere in this Report.

Mini-Tendering

We met with the Infrastructure Maintenance Procurement Department to obtain an understanding of the Mini Tendering Procedures, which were recently introduced at HI. As part of our work, we selected two transactions during our visit to one Division where mini tendering had been applied. The work reviewed related to a request in September 2007 and November 2007.

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PROCUREMENT WALKTHROUGH
HIGH LEVEL COMMON FINDINGS TO ALL THREE DIVISIONS

Finding

Our findings in relation to this area are as follows:

- The mini tendering procedures are not currently documented.
- For one transaction selected, the following issues were noted:
 - It was not clear who had requested the work as the 'Request for Plant and Machinery Hire' form only noted that the request was made by the *'Permanent Way Inspector, Athlone'*.
 - The ADE had requested quotes from 5 potential contractors. From our discussions with the Clerical Officer responsible for mini tendering at Infrastructure Procurement Department, we understand that it is her responsibility to carry out this process.
 - The decision of the ADE is noted on the 'Request for Plant and Machinery Hire' form, together with the reason for selecting the contractor in question i.e. based on *'the cheapest price following request for prices to 5 companies -- see attached paperwork'*. Although we acknowledge that 5 quotations had been received, there was no analysis of the total price of the work for each contractor. Some contractors had quoted hourly rates, some weekly rates and some included transport costs. From a review of the quotations received, it was not easy to establish the total price from each contractor and hence determine the cheapest option.
 - The hourly rate and the transport cost were included on the 'Request for Plant and Machinery Hire' form; however the total value of the work was not documented.
 - There was no documentary evidence on file that regret letters had been issued to the unsuccessful contractors.

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PROCUREMENT WALKTHROUGH
HIGH LEVEL COMMON FINDINGS TO ALL THREE DIVISIONS

Recommendation

4. Detailed procedures should be documented in relation to the mini-tendering process. This should include circumstances where the mini-tendering procedures are required to be followed, together with setting out the roles and responsibilities of both the Divisional Offices and IMSN procurement department in relation to mini-tendering. These procedures should be reviewed on a regular basis, updated as and when required and circulated to the relevant individual.
5. The following recommendations are noted:
 - The 'Request for Plant and Machinery Hire' form should be required to be signed and dated by the Inspector requesting the work.
 - A document should be on file to record the total value of the work, based on the quotations received from each contractor. This will provide evidence that a bid evaluation has taken place.
 - The total value of the work for the selected contractor should be included on the 'Request for Plant and Machinery Hire' form. This will facilitate the reconciliation of the original request to the contractors invoice and supporting timesheets on receipt of same.
 - Responsibility should be assigned to monitor the mini tendering process. This should be included in the documented procedures. Instances should not arise where quotations are sought and received at the Divisional office level, as we understand that this process is required to be carried out centrally by the Clerical Officer at the IMSN procurement department.

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PROCUREMENT WALKTHROUGH
HIGH LEVEL COMMON FINDINGS TO ALL THREE DIVISIONS

Filing of Documentation

Good practice would suggest that all correspondence issued by Divisions should be maintained on file.

Finding

- Instances were noted where copies of all correspondence issued by the Divisional Office were not maintained on file, as supporting evidence e.g. faxes sent to Inspector/contractor.

Recommendation

6. A copy of all correspondence issued from Divisions should be maintained on file, to ensure that sufficient audit evidence exists to support a decision made.

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PROCUREMENT WALKTHROUGH – FINDINGS & RECOMMENDATIONS

DUBLIN DIVISION FINDINGS

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FINDINGS & RECOMMENDATIONS - PROCUREMENT WALKTHROUGH

DUBLIN DIVISION – INFRASTRUCTURE MAINTENANCE – PLANT & LABOUR

DUBLIN DIVISION**INFRASTRUCTURE MAINTENANCE – PLANT & LABOUR**

Dublin Divisional findings and recommendations in Infrastructure Maintenance are covered under the following headings:

HEADING	PAGE
Request for Plant Hire and Labour.....	9
Accuracy of Plant Hire and Labour Requests	10
Selection of Contractors	11
Approval of Contractors.....	12
Contractor Invoices and Supporting Documentation	13

Request for Plant Hire and Labour

The Inspector/requester of work is required to submit the 'Request for Plant and Machinery Hire' form to the Dublin Divisional Office in advance of the work commencing.

Finding

Our walkthroughs indicated that:

- Incidences were found where this form was not submitted to the Divisional Office as required (i.e. the request was done by way of telephone call by the Inspector).
- Older versions of the form had been completed and submitted by the Per Way Inspector.
- This request form was not always submitted to the Divisional Office on a timely basis. Instances were noted where the request was done on the eve of the work being

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FINDINGS & RECOMMENDATIONS - PROCUREMENT WALKTHROUGH

DUBLIN DIVISION – INFRASTRUCTURE MAINTENANCE – PLANT & LABOUR

carried out or submitted to the Divisional office after the work had actually commenced.

Recommendation

7. All requests to the Dublin Divisional Office should be done by way of a completed 'Request for Plant and Machinery Hire' form.
8. All requests should be submitted on the standard form. Different and older versions of the form should not be in operation and should be withdrawn from use.
9. This request form should be submitted by the Per Way Inspector on a timely basis. We were informed that the Divisional Office would require the request at least three working days in advance of the work commencing. Good practice would suggest that this form should be completed and received prior to the work commencing.

Accuracy of Plant Hire and Labour Requests

The Per Way Inspector/requester is required to input sufficient detail on the 'Request for Plant and Machinery Hire' form in order to allow the Clerical Officer to value the work required.

Finding

As a result of our walkthroughs, we noted:

- Instances where insufficient detail was included on this request form for certain plant requests (i.e. details of diggers required etc). This can potentially result in the Clerical Officer estimating the job inaccurately and/or inputting an incorrect amount into SAP through the Service Entry System. In addition, it does not facilitate the easy review of comparing the details on the contractors invoice to the original request.

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FINDINGS & RECOMMENDATIONS – PROCEDURE WALKTHROUGH

DUBLIN DIVISION – INFRASTRUCTURE MAINTENANCE – PLANT & LABOUR

- In relation to labour requests reviewed, the ‘Request for Plant and Machinery Hire’ form did not specify the dates the work was commencing. This lack of detail does not facilitate the reconciliation of the details on the contractor’s invoice to the original request.

Recommendation

10. The details on the ‘Request for Plant and Machinery Hire’ form should be comprehensively completed by the Per Way Inspector requester. Specific detail needs to be inserted regarding the exact type of plant required to carry out the work and the exact dates as to when the work will be carried out. This supports the requirement of the ‘Plant Hire in the Infrastructure Divisions’ guideline document which states that the Per Way Inspector should *‘explain the requirement, detailing the cost/project code, location, description of work, expected duration of hire, machinery type required’*.

Selection of Contractors

On receipt of the ‘Request for Plant and Machinery Hire’ form, the Clerical Officer in the Dublin Divisional Office selects the relevant contractors from the plant hire database and estimates the price of the work to be performed (based on the rates on the database and the request received). This information is documented and forwarded to the ADE, who selects a contractor.

Finding

- We noted an occasion where the Per Way Inspector had requested the plant directly from a contractor and had not gone through the required process, as summarised above. For the case in question, the work was commencing on Monday 19/02/07. The contractor was selected by the Inspector on Sunday 17/02/07. Although we

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FINDINGS & RECOMMENDATIONS - PROCUREMENT WALKTHROUGH

DUBLIN DIVISION – INFRASTRUCTURE MAINTENANCE - PLANT & LABOUR

acknowledge that there was a note on file, based on a telephone call between the Clerical Officer and Inspector, this transaction highlights:-

- That the ADE was not involved in the selection process prior to the work commencing. The ADE did sign the request form subsequently.
- Inadequate planning by the Division in relation to work to be carried out.
- Non compliance with the required procedures.

In accordance with Section 3.3.3 of the Policy and Procedure Manual (Request for Quotations), *'a minimum of three quotations must be sought for all purchases unless otherwise approved by the Procurement Manager'* for Infrastructure projects. For the sample in question, there was no documented evidence presented to us that the approval of the Procurement Manager had been sought and obtained, in the absence of the 3 required quotes.

Recommendation

11. The contractor selection should go through the correct procedure i.e. the Clerical Officer should review the plant hire database to select the three lowest contractors, which should then be submitted to the ADE for approval and selection. The Per Way Inspector should not contact a contractor directly requesting the plant prior to the selection process.

12. Where the Procurement Manager has approved a project where there is no requirement to obtain 3 quotes, a note should be documented on file to this effect.

Approval of Contractors

In the Dublin Divisional Office, the ADE selects the contractor based on the price analysis prepared by the Clerical Officer.

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FINDINGS & RECOMMENDATIONS – PROCUREMENT WALKTHROUGH

DUBLIN DIVISION – INFRASTRUCTURE MAINTENANCE – PLANT & LABOUR

Finding

- Certain files were reviewed where there was no documentary evidence of this review i.e. the ‘Request for Plant and Machinery Hire’ form had not been signed by the ADE and/or an email was not on file to support the decision of the ADE.

Recommendation

13. The ADE should be required to sign and date the ‘Request for Plant and Machinery Hire’ form to provide evidence that selection of contractor was approved at the appropriate level and on a timely basis (i.e. prior to the Service Entry form being generated and the work commencing). Alternatively, a copy of the ADE’s approval email should be included on file to ensure an adequate audit trail exists in relation to the approval of the contractor.

Contractor Invoices and Supporting Documentation

Contractor invoices received are required to be supported by appropriate supporting documentation (i.e. timesheets or work dockets).

Finding

The following issues were identified in relation to a sample of invoices reviewed.

- The quality of timesheets and the level of information included on the timesheets varied between contractors from comprehensive detail to little or no detail.
- Invoices were received which were not always supported by any timesheets or by adequate timesheets.
- The details (plant materials van and labour requirements) and the value of the invoice did not always agree to the ‘Request for Plant and Machinery Hire’ form originally.

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FINDINGS & RECOMMENDATIONS - PROCUREMENT WALKTHROUGH

DUBLIN DIVISION - INFRASTRUCTURE MAINTENANCE - PLANT & LABOUR

submitted by the Inspector requestor. There was no note on file to explain the difference between the original request and the invoice received.

- The dates the work was carried out per the invoice did not always agree to the date recorded on the 'Request for Plant and Machinery Hire' form timesheets. There was no note on file to explain the difference between the original request and the invoice received.

Recommendation

14. Standard timesheets should be developed and issued to all contractors. Certain key information should be required to be included on all timesheets/invoices submitted by contractors to ensure that all information is available to allow a three way check between the original request, the invoice and the supporting timesheets/work dockets.
15. Only invoices that are supported by accurate timesheets should be approved for payment.
16. Where there are additional requirements after the request has been submitted to the Divisional Office, these should be documented and sent to the Divisional Office to facilitate the review/matching of the invoice to the supporting documentation to the original request. We understand that additional requirements are often just phoned in by an Inspector requestor.
17. Specific dates should be included on the 'Request for Plant and Machinery Hire' form to facilitate the matching of the invoice to the original request form and the supporting timesheets.
18. Overall, additional care needs to be taken on reviewing the invoices to ensure that they match to the supporting documentation.

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FINDINGS & RECOMMENDATIONS - PROCUREMENT WALKTHROUGH

DUBLIN DIVISION – INFRASTRUCTURE MAINTENANCE – PLANT & LABOUR

The recommendations above are intended to facilitate the process of compliance.

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FINDING & RECOMMENDATIONS- PROCUREMENT WALKTHROUGH

DUBLIN DIVISION - SE&T - LABOUR

DUBLIN DIVISION**SE&T - LABOUR**

Dublin Divisional findings and recommendations in SE&T (Labour Hire) are covered under the following headings:

HEADING	PAGE
Request for Labour.....	16
Completeness and Accuracy of Labour Requests.....	17
Approval of Contractor.....	17
Valuation of Work.....	18
Contractor Invoices and Supporting Documentation.....	20

Request for Labour

The SE&T Inspector/requester of the work is required to submit the 'Request for Hire of contractor for Signalling & Electrical' form to the Divisional Office in advance of the work commencing.

Finding

Our walkthroughs indicated the following:

- This form was not always submitted to the Divisional Office on a timely basis. An instance was noted where this request form had been submitted to the Dublin Divisional office on the day the work actually commenced. A second instance was noted where the request form was submitted 11 days after the work had commenced.

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FINDING & RECOMMENDATIONS- PROCUREMENT WALKTHROUGH

DUBLIN DIVISION – SE&T – LABOUR

Recommendation

19. In order to follow the required procedures at the Divisional Office, we were informed that the Divisional Office would require the request at least three working days in advance. This timeframe should be incorporated into the procedures.

Completeness and Accuracy of Labour Requests

The SE&T Inspector/requester is required to input sufficient detail on the 'Request for Hire of contractor for Signalling & Electrical' form in order to allow the Clerical Officer to value the work required.

Finding

- As a result of our walkthroughs, we noted instances where insufficient detail was included on the form in relation to the labour requests (i.e. day or night shifts required etc). This can potentially result in the Clerical Officer valuing the job inaccurately and inputting an incorrect amount into SAP through the Service Entry system.

Recommendation

20. The details on the Request form should be accurately included by the SE&T Inspector requester of the work. Specific detail needs to be included regarding the exact type of labour required (i.e. number of gangers, number of men, shifts required i.e. day, night or weekend).

Approval of Contractor

In the Dublin Division, the Signalling Engineer approves the contractor

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FINDING & RECOMMENDATIONS- PROCUREMENT WALKTHROUGH

DUBLIN DIVISION – SE&T – LABOUR

Finding

- Certain files were reviewed where there was no documentary evidence of this review and approval by the Signalling Engineer i.e. the request form had not been signed by the Signalling Engineer or an email was not on file to support the decision of the Signalling Engineer (i.e. based on rates, availability and experience). We do acknowledge that the Signalling Engineer approves the request when reviewing the contractor's invoice, but this is subsequent to the work being carried out. We understand that the Signalling Engineer's approval in most cases is based on discussions with the SE&T Inspector and is not documented at the request stage.

Recommendation

21. The Signalling Engineer should be required to sign and date the 'Request for Hire contractor for Signalling & Electrical' form to provide evidence that the selected contractor was approved at the appropriate level and on a timely basis (i.e. prior to the Service Entry form being generated and the work commencing). Alternatively, a copy of the Signalling Engineer's approval email should be included on file to ensure an adequate audit trail exists.

Valuation of Work

Once the Signalling Engineer has approved the contractor, the Clerical Officer estimates a price for the work to be performed.

Finding

Our walkthrough revealed the following.

- The practice in place to select and approve a contractor is that the SE&T Inspector recommends a contractor, which is then approved by the Signalling Engineer. A

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FINDING & RECOMMENDATIONS- PROCUREMENT WALKTHROUGH
DUBLIN DIVISION- SE&T- LABOUR

procedure was not in place in SE&T Labour where a review is being carried out on a number of contractors' rates to ensure that value for money was considered. This relates to both pre and post the establishment of the labour database.

- Prior to the development of the labour database, we were informed by the Clerical Officer we met, that she based her estimate of the work to be carried out on rates included in previous contractors' invoices.
- There was no analysis presented to us of how the total value for the work to be performed had been estimated by the Clerical Officer. A total figure was recorded in SAP. No value was recorded on the request form.
- Occasions were noted where zero values or the incorrect value of the work to be performed had been input into SAP.

Recommendation

22. A review should be carried out on a number of contractors' rates to ensure that value for money is being considered. Where the lowest contractor is not selected, a note should be on file to support the decision of the Signalling Engineer.
23. The standard rates developed should be used for all job estimations going forward.
24. An analysis should be kept on file to support the value of the work to be performed i.e. rates x labour requirements etc.
25. The approved value of the work to be performed should be entered onto SAP.

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FINDING & RECOMMENDATIONS-PROCUREMENT WALKTHROUGH
DUBLIN DIVISION – SE&T – LABOUR

Contractor Invoices and Supporting Documentation

Contractor invoices are required to be supported by appropriate supporting documentation (i.e. timesheets etc).

Finding

The following issues were identified in relation to a sample of invoices reviewed.

- The quality of timesheets and the level of information included on the timesheets varied between contractors from comprehensive detail to little or no detail.
- The PO Number on one invoice did not agree with the PO number included on the 'Request for Hire of contractor for Signalling & Electrical Work' form. There was no comment on file to suggest that this discrepancy had been highlighted, investigated and resolved.
- The invoice did not always agree to the 'Request for Hire of contractor for Signalling & Electrical Work' form. For example, for one transaction selected, the request was for 3 men for 10 days commencing on 10 April 07. The work invoiced commenced on Monday 16 April 07. There is no note/comment on file to explain why there was a change in the commencement date.

For another transaction selected, the Request required 3 men for 4 days; the invoice was for 3 men for 5 days. There was no note on file to explain the difference from the request.
- The supporting timesheets/work dockets were not always signed and dated by an HSE supervisor.

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FINDING & RECOMMENDATIONS- PROCUREMENT WALKTHROUGH

DUBLIN DIVISION – SE&T - LABOUR

- Insufficient back-up was provided for materials-plant hire used on certain jobs.

Recommendation

26. Standard timesheets should be developed and issued to all contractors. Certain key information should be required to be inserted on all timesheets/work dockets received from contractors to ensure that all information is available to allow a 3 way check between the original request, the invoice and the signed timesheets/work dockets.
27. Where differences are noted between PO numbers on invoices and the request form, this should be investigated, followed up and resolved prior to approval and there should be evidence of this maintained on file.
28. Where additional plant/materials/labour is required in excess of the original request by the Inspector requestor on the Request form, this should be communicated to the Dublin Divisional Office by way of email as the additional plant/material/labour is used onsite. This will help facilitate the Clerical Officer on matching the invoice details to the supporting timesheet and other documentation relating to the work performed.

It should be noted that this control was recently introduced in New Works and should be applied to all Divisions as it represents good practice.

29. All timesheets should be signed by an Tarnród Éireann representative. This is a requirement for Infrastructure Maintenance as per the 'Plant Hire in the Infrastructure Division' guideline. This document specifically states that *'timesheets are issued by the PHC to the PHU on a weekly basis. These are signed by the PHU and then returned to the DE's office for processing'*

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FINDING & RECOMMENDATIONS- PROCUREMENT WALKTHROUGH

DUBLIN DIVISION - SE&T - LABOUR

This is good practice and should also apply to SE&T labour timesheets. In addition, it should be noted that this control currently operates in New Works.

30. Van and plant hire should be adequately supported. This detail should be signed on-site on completion of the usage of the van and/plant hire and/materials.
31. Overall additional care needs to be made to ensure that the invoices received match the information contained on the timesheets.

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PROCUREMENT WALKTHROUGH – FINDINGS & RECOMMENDATIONS

LIMERICK DIVISION FINDINGS

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FINDING & RECOMMENDATIONS- PROCUREMENT WALKTHROUGH
LIMERICK DIVISION – INFRASTRUCTURE MAINTENANCE – PLANT HIRE**LIMERICK DIVISION****INFRASTRUCTURE MAINTENANCE – PLANT HIRE**

Limerick Divisional findings and recommendations in Infrastructure Maintenance are covered under the following headings:

HEADING	PAGE
Request for Plant Hire	23
Contractor Invoices and Supporting Documentation	24

Request for Plant Hire

On receipt of the 'Request for Plant and Machinery Hire' form, the Clerical Officer in the Limerick Divisional Office selects the relevant contractors from the plant hire database. He/she forwards the database printout, together with the request form to the ADE. The ADE reviews the contractors based on the rates on the database print out and the details on the request form received and selects the appropriate contractor.

Finding

As a result of our walkthrough, we noted the following:

- There was no documented evidence of how the ADE had selected the contractor from the database printout or that a value for money exercise had been carried out.
- The request form is initialed signed by the ADE however we understand that there is currently no requirement to date this form to provide evidence that the request was reviewed on a timely basis (i.e. prior to the work being carried out or the service entry being created).

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FINDING & RECOMMENDATIONS- PROCUREMENT WALKTHROUGH

LIMERICK DIVISION-- INFRASTRUCTURE MAINTENANCE - PLANT HIRE

- The lowest priced contractor was not selected by the ADE for one sample selected and there was no explanation on file to support the decision of the ADE i.e. service and availability, safety record and system, machine suitability and maintenance.

Recommendation

- 32. The ADE should clearly document the selection process to demonstrate that a value for money exercise has been carried out and on what basis a contractor has been selected.
- 33. The ADE should be required to sign and date the request form to provide evidence that the work was approved at the correct stage, i.e. prior to the Service Entry form being generated and/ the work commencing.
- 34. An explanation should be on file to support the decision made by the ADE, including a note as to why the lowest priced contractor had not been selected i.e. based on service and availability, safety record and system, machine suitability and maintenance.

Contractor Invoices and Supporting Documentation

Contractor invoices received are required to be supported by appropriate supporting documentation (i.e. signed timesheet/work dockets etc).

Finding

The following issues were identified in relation to a sample of invoices reviewed. It should be noted that these invoices had been approved for payment, even though the following issues were identified:

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FINDING & RECOMMENDATIONS- PROCUREMENT WALKTHROUGH

LIMERICK DIVISION – INFRASTRUCTURE MAINTENANCE – PLANT HIRE

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- The level of information included on the work docket varied between contractors, from comprehensive detail to little or no detail.
 - The details and the value of the invoice did not always agree to the ‘Request for Plant and Machinery Hire’ form originally submitted by the Permanent Way Inspector/requestor. Examples noted were:
 - transport costs had been added, which were not included in the original request form;
 - additional shifts were included on the invoice, which were not included in the original request form; and
 - different code types had been included in the invoice as compared to that described on the request form.

There was no explanation on file to support the differences between the original request and the amount that was invoiced.

Recommendation

35. Standard timesheets should be developed and issued to all contractors. Key information should be required to be included on all timesheet/work dockets received from contractors.
36. All costs associated with the plant hire including transport should be included in the ‘Request for Plant and Machinery Hire’ form so as to ensure the correct value is recorded in the service entry system and input into SAP. (We were informed that some contractors do not charge transport costs and hence these costs are intentionally excluded on the original request form service entry).
37. All contractors should have an up to date list of plant codes from the Division’s database. This will facilitate the easy review of the contractor’s invoice to the original

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FINDING & RECOMMENDATIONS- PROCUREMENT WALKTHROUGH
LIMERICK DIVISION – INFRASTRUCTURE MAINTENANCE – PLANT HIRE

request. In addition, consideration should be given to reviewing the database to ensure that it is complete and up to date regarding contractor's rates and plant code descriptions).

38. A note should be on file to explain any differences between the original request and the final invoice. Where additional requirements for plant/labour material are required when the job is being carried out this should be recorded by the Permanent Way Inspector/relevant individual and forwarded to the Divisional office. This will facilitate the checking of the invoice when it is received by the Divisional Office. In addition, there should be evidence that the rates invoiced by Contractors for this extended work agree to the rates in the Division's database.
39. Additional care needs to be taken on reviewing the contractor's invoices to ensure that they match to the supporting documentation and to the original request.

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FINDING & RECOMMENDATIONS- PROCUREMENT WALKTHROUGH

LIMERICK DIVISION – SE&T – LABOUR HIRE

LIMERICK DIVISION**SE&T – LABOUR HIRE**

Limerick Divisional findings and recommendations in SE&T (Labour Hire) are covered under the following headings:

HEADING	PAGE
Request for Labour.....	27
Review of Contractors.....	28
Selection and Approval of Contractors.....	29
Valuation of Work.....	30
Contractor Invoices and Supporting Documentation.....	31

Request for Labour

The SE&T Inspector/requester is required to input sufficient detail on the 'Request for Requisition' form in order to allow the Clerical Officer to value the work required.

Finding

For our sample selected, we noted:

- Instances where insufficient detail was included on the 'Request for Requisition' form in relation to detail of the project and the exact labour requirements (i.e. type of labour required or amount and type of shifts required). This can potentially result in the Clerical Officer valuing the job inaccurately and/or inputting an incorrect amount into SAP through the Service Entry System. Additionally, it does not facilitate the easy comparison of the contractors invoice and supporting documentation against the original request.

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FINDING & RECOMMENDATIONS-PROCUREMENT WALKTHROUGH

LIMERICK DIVISION – SE&T – LABOUR HIRE

- In relation to pre June 2007 procedures, the request consisted of a high level request to set up the Purchase Order, together with a weekly request for the drawdown against this. Our work highlighted that only the initial request was approved by the SE&T Engineer. The original request reviewed was high level and did not provide sufficient detail as to the work required to be carried out and over what period.

Recommendation

40. The details on the 'Request for Requisition' form should be accurately included by the SE&T Inspector/requester of the work. Specific detail needs to be included regarding the exact type of labour required (i.e. no. of gangers, no. of men, shifts required i.e. day, night or weekend). All relevant sections of the form should be completed by the SE&T Inspector, as required.

In relation to point b) above, we understand that this procedure no longer exists.

Review of Contractors

We were informed that Labour contractors are selected by the SE&T Inspector and that the selection is based on a rotation basis.

Finding

- As a result of the transactions selected, we noted that there was no documentary evidence to support that a value for money exercise was carried out by the SE&T Inspector or the Signalling Engineer, for selecting and approving the contractor in question or that the contractors had been rotated. For one piece of work reviewed, the request was for €20,000. There was no documentary evidence on file to support that quotations had been obtained for this work or contractor rates had been reviewed and compared. Therefore, we were unable to determine if the lowest contractor had been

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LIMERICK DIVISION – SE&T – LABOUR HIRE

selected or on what grounds the contractor in question had been selected (i.e. based on skill experience availability).

Recommendation

41. A note should be on file supporting the decision made by the SE&T Inspector and the Signalling Engineer for selecting and approving a contractor. If the lowest priced contractor has not been selected, a note should be on file to support this decision.

Selection and Approval of Contractors

Our discussions indicated that the contractor is selected by the SE&T Inspector and approved by the Signalling Engineer.

Finding

- Certain files reviewed post June 2007 revealed that there was no documentary evidence on file of this approval at the request stage i.e. the Request form had not been signed by the Signalling Engineer prior to the work commencing or an email was not on file to support the decision of the Signalling Engineer. We do acknowledge that the Signalling Engineer approves the request when reviewing the Contractors invoice, but this is subsequent to the work being carried out. We were informed that the Signalling Engineer's approval is based on discussions with the SE&T Inspector and is not documented at the request stage.

Recommendation

42. The Signalling Engineer should be required to sign and date the 'Request for Requisition' form to provide evidence that the selection of a contractor was approved at the appropriate level and on a timely basis (i.e. prior to the Service Entry form being generated and the work commencing). Alternatively, a copy of the Signalling

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LIMERICK DIVISION – SE&T- LABOUR HIRE

Engineer's approval email should be included on file to ensure an adequate audit trail exists in relation to the approval process.

Valuation of Work

The Clerical Officer receives the 'Request for Requisition' form from the SE&T Inspector, which we understand has been approved by the Signalling Engineer (as there is no documentary evidence of this approval, as noted above). It is the Clerical Officer's responsibility to insert the value on the 'Request for Requisition' form.

Finding

The following issues were noted in relation to the sample reviewed:

- For a sample of 3 labour requests reviewed, insufficient detail was included on the 'Request for Requisition' form by the SE&T Inspector to enable the Clerical Officer to accurately value the work to be carried out. The forms reviewed did not set out the number of men required, the shifts (i.e. day or night work), or the number of days. We do acknowledge that in one instance reviewed, the Clerical Officer had hand written the exact requirements, based on her subsequent discussions with the relevant SE&T Inspector.
- There was no analysis presented to us of how the total value for the work to be performed had been estimated by the Clerical Officer. A total figure was recorded on the request form.

In all cases reviewed, the value of the invoice did not agree to the value of the original request. As there was insufficient detail on file to support the value of the

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FINDING & RECOMMENDATIONS- PROCUREMENT WALKTHROUGH

LIMERICK DIVISION – SE&T- LABOUR HIRE

work per the original request, it was difficult to explain the difference between the original request and the contractors' invoices.

- Our discussions indicated that pre June 2007 standard rates did not exist for SE&T labour. We were informed that in order to value the work, the Clerical Officer on occasion, would use rates from previous contractor invoices. On other occasions, we understand that the contractor submitted a letter to the Division, with their proposed rates, which we understand that had been agreed previously with the SE&T Inspector.

Recommendation

43. SE&T inspectors should be required to insert sufficient detail on the 'Request for Requisition' forms to enable the Clerical Officer to accurately value the work to be performed. This should include details of the number of men required, the exact dates as to when the work should be carried out, together with the shifts required (i.e. day or night shifts).
44. An analysis should be kept on file to support the value of the work to be performed i.e. rates x labour requirements etc.

In relation to point c) above, we understand that post June 2007 standard rates were introduced for SE&T labour.

Contractor Invoices and Supporting Documentation

Contractor invoices received are required to be supported by appropriate supporting documentation (i.e. timesheets or work dockets).

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FINDING & RECOMMENDATIONS- PROCUREMENT WALKTHROUGH

LIMERICK DIVISION – SE&T- LABOUR HIRE

Finding

The following issues were identified in relation to a sample of invoices reviewed.

- The checking of the timesheet to the invoice is only carried out by the SE&T Inspector, who requested the work. We understand that the timesheets are not checked by the Clerical Officer or the Signalling Engineer to the contractor's invoices. We were informed that the signed timesheets were filed with the SE&T Inspector.
- The details and value per the invoices did not always agree to the original 'Request for Requisition' form. The differences related to additional van/tools being required, which were not outlined in the original request. In other instances noted, as there was a lack of detail on the 'Request for Requisition' form, we were unable to explain the differences between the original request and the invoice.
- Timesheets reviewed did not detail the start/finish times or the hours worked for each of the labourers. Therefore, it was not possible to determine how many hours had been worked and to agree this with certainty to the contractor's invoice.
- We noted an instance where the work had been carried out week commencing 20 August 2007 for a period of one week. However, at the time of our walkthroughs (26-27 November 2007), the invoice had not yet been received from the contractor. This time lag together with regular lack of detail makes proper reconciliation difficult.

Recommendation

45. To ensure adequate segregation of duties exist, a second individual should check the invoice to the supporting timesheets. It should be noted that this check is carried out by the Clerical Officer and the ADE in another Division, which we visited.

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FINDING & RECOMMENDATIONS- PROCUREMENT WALKTHROUGH

LIMERICK DIVISION – SE&T – LABOUR HIRE

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46. Standard timesheets work dockets should be developed and issued to all contractors. Consideration should be given to including certain key information on the standard timesheet, to ensure that all information is available to allow a three way check between the original request, the invoice and the supporting timesheet-work dockets.
47. Where additional labour/materials/plant is required in excess of the original request by the SE&T Inspector/requestor, this should be communicated to the Divisional Office by way of email/fax on a timely basis. This will help facilitate the 3 way match of the invoice details to the supporting timesheet to the original request.
- We understand that this control was recently introduced in New Works and should be applied to all Divisions as it represents good practice.
48. Timesheets should detail the start and finish times and/ hours worked for all labourers to provide evidence of actual hours worked and invoiced.
49. Contractors should be requested to submit invoices within a reasonable timeframe of carrying out the work.
50. In general, no invoice should be approved for payment which is not fully supported to the original request and supporting timesheets work docket.

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APP. 5 Pt. 2.

PROCUREMENT WALKTHROUGH – FINDINGS & RECOMMENDATIONS

ATHLONE DIVISION FINDINGS

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FINDING & RECOMMENDATIONS- PROCUREMENT WALKTHROUGH
ATHLONE – INFRASTRUCTURE MAINTENANCE - LABOUR HIRE

ATHLONE DIVISION

INFRASTRUCTURE MAINTENANCE - LABOUR HIRE

Athlone Divisional findings and recommendations in Infrastructure Maintenance (Labour Hire) for labour are covered under the following headings:

HEADING	PAGE
Selection of Contractor.....	34
Approval of Labour Requests	35

Selection of Contractor

We understand from discussions with the Divisional Accountant and the ADE that the contract labour requirement for the Athlone Division for Infrastructure Maintenance was put out to tender and [REDACTED] was awarded the Contract.

Finding

We were informed that the Division follows the procedures set out below for its Infrastructure Maintenance Labour with [REDACTED]:

- The ADE and the Relaying Inspector discuss the labour requirement on an ad hoc basis in conjunction with the tender document.
- The outcome of the meeting (i.e. the labour requirements) between the ADE and the Relaying Inspector is not documented.
- The ADE contacts [REDACTED] by e-mail with the labour requirements discussed with the Relaying Inspector. We understand that the labour requirements could be for a period of up to 6 weeks.
- The contractor invoices are reviewed and approved by the Divisional Accountant in detail and also at a higher level by the ADE.

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FINDING & RECOMMENDATIONS- PROCUREMENT WALKTHROUGH

ATHLONE - INFRASTRUCTURE MAINTENANCE - LABOUR HIRE

- For the sample selection, there was no documented evidence presented to us to support the planning for the work between the ADE and Relaying Inspector and the request to [REDACTED].

Recommendation

51. On a weekly basis, the ADE and the Relaying Inspector should consider the Division's labour requirements on a more formalised basis in accordance with the tender document.
52. Notes should be maintained of the agreed weekly labour requirements based on the discussions between the ADE and the Relaying Inspector.
53. Formal communication should be in place and on the file regarding the weekly requests made to [REDACTED]. A review should be carried out between the original request and the tender requirements, the invoice, the supporting timesheets/work dockets and the rates on the database.

Approval of Labour Requests

We were informed that the ADE and the Relaying Inspector conduct discussions regarding the labour requirement on an ad hoc basis.

Finding

For our sample selected,

- There was no documentation on file presented to us in relation to the discussion that had taken place. We were informed by the ADE that the discussion took place between the ADE and Relaying Inspector, but that it is not formally documented.

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FINDING & RECOMMENDATIONS- PROCUREMENT WATERBROUGH
ATHLONE – INFRASTRUCTURE MAINTENANCE – LABOUR HIRE

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- Subsequent to the discussion between the ADE and Relaying Inspector, there was no documentation on file to confirm that the request had been formally communicated to the contractor, [REDACTED]. Therefore, it is not possible to compare the amount invoiced by the contractor to an original request. We do acknowledge for the invoice in question, that the invoice details did agree to the timesheets. However, good practice would suggest that a check should also be done between a request and the amount invoiced by the contractor, with an explanation being sought and documented for any differences.

Recommendation

- 54. The outcome of the meeting between the ADE and the Relaying Inspector, in relation to the plant requirements should be documented and available.
- 55. All requests to [REDACTED] and other contractors for labour requirements should be in writing, either by way of email, fax or a standard form. A check should be carried out between the contractor's invoice and the original documented request. Any differences between these should be explained and a note put on file.

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FINDING & RECOMMENDATIONS- PROCUREMENT WALKTHROUGH

ATHLONE DIVISION - INFRASTRUCTURE MAINTENANCE & SE&T - PLANT HIRE

ATHLONE DIVISION**INFRASTRUCTURE MAINTENANCE & SE&T - PLANT HIRE**

Athlone Divisional findings and recommendations in Infrastructure Maintenance & SE&T for plant hire are covered under the following headings:

HEADING	PAGE
Request for Plant Hire	37
Approval of Contractors.....	38
Valuation of Work.....	40
Contractor Invoices and Supporting Documentation.....	41

Request for Plant Hire

The Permanent Way Inspector is required to submit a 'Request for Plant and Machinery Hire' form to the Athlone Divisional Office in advance of the work commencing.

Finding

As a result of our walkthrough, instances were noted where:

- It was difficult to determine who completed and approved the request form as the form has been typed and the Permanent Way Inspector's and ADE's signature was not on the form. In some cases reviewed, the ADE's name was type signed on the document.
- The request form had been submitted to the Athlone Divisional Office after the work had commenced. For example, the request was received on 27/08/07 but the work commenced on 17/07/07. In other instances, it was difficult to determine when the 'Request for Plant and Machinery Hire' form was submitted as the date was not recorded on the request form.

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FINDING & RECOMMENDATIONS- PROCUREMENT WALKTHROUGH

ATHLONE DIVISION – INFRASTRUCTURE MAINTENANCE & SE&F – PLANT HIRE

- All the required sections of the ‘Request for Plant and Machinery Hire’ form had not been completed in full.

Recommendation

56. The Permanent Way Inspector should be required to complete, sign and date the ‘Request for Plant and Machinery Hire’ form. This recommendation should apply to all Divisions.
57. The date that the ‘Request for Plant and Machinery Hire’ form was submitted to the ADE/Accountant should be included on the form/ the form should be date stamped on receipt to the Divisional office.
58. In addition, the ‘Request for Plant and Machinery Hire’ form should be submitted by the relevant Permanent Way Inspector to the Divisional Office in a timely manner (i.e. prior to the work commencing).
59. All required sections of the ‘Request for Plant and Machinery Hire’ form should be completed in full by the relevant individuals.

Approval of Contractors

On receipt of the ‘Request for Plant and Machinery Hire’ form, the Accountant or the ADE reviews the contractor’s rates on the database, and generates a print from the system. We understand that the ADE will always select and approve the contractor. The contractor’s details are then recorded on the ‘Request for Plant and Machinery Hire’ form. The value of the work is calculated by the Clerical Officer.

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FINDING & RECOMMENDATIONS- PROCUREMENT WALKTHROUGH

ATHLONE DIVISION – INFRASTRUCTURE MAINTENANCE & SE&T – PLANT HIRE

Finding

As a result of our walkthrough, we noted instances where:

- The ADE's name was often typed on the request form as confirmation of approval.

In addition, the date the ADE signed the request form as confirmation of approval was not included. As the ADE is not required to date the request form, it is difficult to determine if the approval took place prior to the work commencing.

- There was no documented evidence of how the ADE had selected the contractor from the database printout or that a value for money exercise had been carried out. As there was a lack of detail on the 'Request for Plant and Machinery Hire' form relating to the specific plant required, it was difficult to ascertain if the lowest contractor had been selected. In addition, there was no note on file to explain why the contractor in question had been selected (i.e. based on price, service and availability, safety record and system, or machine suitability and maintenance).

Recommendation

60. The ADE should be required to sign and date the 'Request for Plant and Machinery Hire' form to provide evidence that the selection of a contractor was approved at the appropriate level and on a timely basis (prior to the work commencing). Alternatively, if this approval is done by way of email, a copy of the email should be included on file to ensure an adequate audit trail exists in relation to the approval of the contractor.
61. The ADE should clearly document the process involved in determining how the value for money exercise has been carried out and on what basis a contractor is selected. Where the lowest priced contractor has not been selected, a note should be on file to

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ATHLONE DIVISION - INFRASTRUCTURE MAINTENANCE & SE&F - PLANT HIRE

explain the rationale for this i.e. based on the contractors service and availability, safety record and system, and/or machine suitability and maintenance.

Valuation of Work

The Clerical Officer in the Divisional Office calculates the value of the plant requested when the contractor has been selected by the ADE.

Finding

As a result of our walkthrough, the following issues were noted:

- The rates on the plant hire database used to calculate the value of plant requested did not always agree to the rates included in the contractor's invoice.
- One example was noted where the original request quoted €60 for a piece of plant hire. Two invoices were received from the contractor for the plant, one quoting €40 and the second invoice quoting €45. There was no note on file to explain:
 - Why the original quote was different to the invoice rates (€40 and €45); or
 - Why two invoices had two different rates for the same piece of plant.
- An e-mail was sent by the Procurement Department on 16 October 2007 to a number of individuals informing them that the rates on the database for one contractor, [REDACTED], had not been updated for the revised rates of July 2007. The Procurement Department attached a separate excel spreadsheet, containing the correct rates for this contractor. Subsequent to our walkthrough, we were informed that the database had been updated to reflect the revised rates for [REDACTED].

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FINDING & RECOMMENDATIONS- PROCUREMENT WALKTHROUGH

ATHLONE DIVISION - INFRASTRUCTURE MAINTENANCE & SE & T - PLANT HIRE

- There was no analysis presented to us as to how the total value of the work to be performed had been estimated by the Clerical Officer. A total figure had been recorded on the file.

Recommendation

62. A review of the plant hire database should be undertaken to ensure that the rates on the database are current and up to date. A note should be on file to explain any differences between the original request and the amount invoiced.
63. Each Division should satisfy themselves that the rates included on the invoices received from [REDACTED] in the period from July 2007 to October 2007 were correct.
64. An analysis should be kept on file to support the value of the work to be performed i.e. rates x labour requirements.

Contractor Invoices and Supporting Documentation

Contractor invoices are required to be supported by appropriate supporting documentation (i.e. signed timesheets or work dockets).

Finding

The following issues were identified in relation to a sample of invoices reviewed.

- The level of information included on the work dockets varied between contractors from comprehensive detail to little or no detail

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FINDING & RECOMMENDATIONS- PROCUREMENT WALKTHROUGH

ATHLONE DIVISION – INFRASTRUCTURE MAINTENANCE & SE&T – PLANT HIRE

➤ The details and the value of the invoice did not always agree the ‘Request for Plant and Machinery Hire’ form originally submitted by the Permanent Way Inspector/requestor. Examples were noted where:

- additional hours were included on the request form, which were not included on the invoice;
- additional hours were included on the invoice that were not included on the request form (i.e. the job started one day earlier than requested);
- different code types had been included in the invoice as compared to that described on the request form;
- different plant codes, descriptions and prices had been included on the invoice as compared to that described on the request form. From a review of the invoice, it was unclear if the same plant was supplied as that ordered;
- transport costs on the request form did not match what was invoiced; and
- timesheet/invoice indicated that work commenced prior to the date requested.

There was no explanation on file to support the changes between the original request and the amount that was invoiced.

➤ The details on the original service entry are amended on SAP in order to agree to the contractors’ invoices/timesheets that were approved, if this is different than the original request. For a number of transactions selected, these amendments had not been noted on the original Service Entry form printed out and placed on file. This is a housekeeping issue, in that the copy on the manual file is inconsistent with the updated information on SAP. In other Divisions visited, the amendments are made to the Service Entry printed out on file, as we understand that a second Service Entry form can not be printed out from the system.

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FINDING & RECOMMENDATIONS- PROCUREMENT WALKTHROUGH

ATHLONE DIVISION – INFRASTRUCTURE MAINTENANCE & SE&T – PLANT HIRE

Recommendation

65. Standard timesheets should be developed and issued to all contractors. Consideration should be given to including the certain key information on the standard timesheet, to ensure that all information is available to allow the 3 way match between the original request, the contractor's invoice and the supporting documentation.

66. A review of the database should be undertaken to ensure that it is accurate and up to date. All contractors should have an up to date list of plant codes from the Division's database. This will facilitate the easy review of the contractor's invoice to the original request.

67. A note should be on file to explain any differences between the original request and the final invoice. Where additional requirements for plant/labour/material are required when the job is being carried out/the original request changes, this should be recorded by the Permanent Way Inspector/relevant individual and forwarded to the Divisional office. This will facilitate the checking of the invoice, when it is received into the Divisional Office. In addition, there should be evidence that the rates used by Contractors agree to the Division's database.

68. All amendments to the service entry on SAP should be noted on the form, if the system will not allow a second service entry form to be printed out.

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PROCUREMENT WALKTHROUGH – FINDINGS & RECOMMENDATIONS

NEW WORKS CONSTRUCTION FINDINGS

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FINDING & RECOMMENDATIONS- TMSN PROCUREMENT WALKTHROUGH

NEW WORKS CONSTRUCTION UNIT - PLANT HIRE & CONTRACTED LABOUR

NEW WORKS CONSTRUCTION UNIT**PLANT HIRE & CONTRACTED LABOUR**

New Works Construction Unit (Plant Hire & Contracted Labour) findings and recommendations are covered under the following headings:

HEADING	PAGE
Documented Procedures.....	44
Approval of Labour Requests	45
Contractor Invoices and Supporting Documentation.....	47

Documented Procedures

We understand from discussions with the Track and Installation Manager and the Plant Co-ordinator that the requirement for plant hire and labour for New Works Construction Unit projects goes out to tender, with contractors being awarded the tenders on a percentage basis.

Finding

We were informed that New Works Construction Unit follows the procedures set out below for its plant hire and labour requirements.

- Weekly meetings take place between the Track and Installation Manager, the Plant Co-ordinator and Inspectors to determine the amount of plant hire and labour required for the following week in accordance with the tender.
- The Plant Co-ordinator prepares a detailed excel spreadsheet that calculates an estimate of the value of the plant hire and labour being requested.

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**FINDING & RECOMMENDATIONS- IMSN PROCUREMENT WALKTHROUGH
NEW WORKS CONSTRUCTION UNIT - PLANT HIRE & CONTRACTED LABOUR**

- The Plant Co-ordinator inputs the details of the plant and labour required and the estimated value into SAP based on the excel spreadsheet.
- The Plant Co-ordinator e-mails the service entry number together with details of the plant and labour required to the contractors.
- The work is completed on site and timesheets/delivery dockets are signed by an Iarnród Éireann representative.
- The contractor invoices are reviewed in detail and approved by the Plant Co-ordinator, the Track and Installation Manager, Construction Unit Manager and the Construction Unit Accountant.

The above procedures followed by New Works Construction Unit are not currently documented.

Recommendation

69. Good practice would suggest that these procedures should be formally documented detailing who should carry out each task, the timeframes involved and what documents are required to be maintained etc.
70. Once the above procedures are finalised, these should be circulated to the relevant staff members, reviewed and updated as and when required.

Approval of Labour Requests

We were informed that the Track and Installation Manager, the Plant Co-ordinator and Inspectors conduct discussions on a weekly basis regarding the plant hire and labour

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FINDING & RECOMMENDATIONS- TMSN PROCUREMENT WALKTHROUGH
NEW WORKS CONSTRUCTION UNIT – PLANT HIRE & CONTRACTED LABOUR

requirements. A detailed excel spreadsheet is prepared by the Plant Co-ordinator which outlines the plant hire and labour required.

Finding

At the time of our fieldwork, for our sample selected:

- There was no weekly spreadsheet on file/presented to us in relation to the discussion that had taken place. The absence of this spreadsheet makes it difficult to reconcile the contractor's invoice received to the original request.
- There was no documentation on file to confirm that the request had been formally communicated to the contractor. Therefore, it is not possible to compare the amount invoiced by the contractor to an original request. Good practice would suggest that a check should also be done between the original request and the amount invoiced by the contractor, with an explanation being sought and documented for any differences.

Recommendation

71. The outcome of the meeting between the Track and Installation Manager, the Plant Co-ordinator and Inspectors, in relation to the plant hire and labour requirements should be documented and held on file.
72. All requests to contractors for plant hire and labour requirements should be in writing, either by way of email, fax or a standard form. A check should be carried out between the contractor's invoice and the original documented request. Any differences between these should be explained and a note put on file.

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FINDING & RECOMMENDATIONS- EMSN PROCUREMENT WALKTHROUGH
NEW WORKS CONSTRUCTION UNIT – PLANT HIRE & CONTRACTED LABOUR

Contractor Invoices and Supporting Documentation

Contractor invoices are received by the Plant Co-ordinator and are required to be supported by appropriate supporting documentation (i.e. signed timesheets or work dockets).

Finding

For a sample selected:

- The date the timesheets were approved and the role of the individual who had approved the timesheets was not detailed, this makes it difficult to determine when the timesheets were approved and if they had been approved at the appropriate level.
- The timesheets for labour were very difficult to match back to the contractor's invoice as the timesheets did not show a rate per hour and the invoice only showed subtotals for each category of worker for each week.
- For a labour invoice reviewed, while it had been signed by the Plant Co-ordinator as evidence of this review, there was no analysis on the invoice/timesheet or no other documentary evidence on file that provided us with assurance that a reconciliation had been carried out between the invoice and timesheet.

Recommendation

73. The role of the individual approving the timesheets and the date the timesheets are approved should be noted on the timesheets so that it is easy to determine at what level the timesheets have been reviewed and whether they were approved on site when the work was completed.
74. standard timesheets should be developed and issued to all contractors. Certain key information should be required to be included on all timesheets invoices submitted by

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FINDING & RECOMMENDATIONS-IMSN PROCUREMENT WALKTHROUGH
NEW WORKS CONSTRUCTION UNIT – PLANT HIRE & CONTRACTED LABOUR

contractors to ensure that all information is available to allow a three way check between the original request, the invoice and the supporting timesheets work dockets.

75. For labour invoices, a summary sheet should be produced by the contractor (similar to plant hire in the New Works Construction Unit), matching the timesheet hours to the invoice total. Alternatively, this analysis could be done and documented by the Plant Co-ordinator, before he/she signs the invoice as evidence of review and matching of the invoice to the timesheets and the original request.

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PROCUREMENT WALKTHROUGH – FINDINGS & RECOMMENDATIONS

SE&T TELECOM MAINTENANCE FINDINGS

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FINDING & RECOMMENDATIONS- TMSN PROCUREMENT WALKTHROUGH
SE&T TELECOMS MAINTENANCE - LABOUR HIRE**SE&T****TELECOMS MAINTENANCE - LABOUR HIRE**

Telecom's Maintenance (Labour Hire) findings and recommendations are covered under the following headings:

HEADING	PAGE
Selection of Contractor.....	49
Approval of Labour Requests	51
Valuation of Work.....	52
Contractor Invoices and Supporting Documentation.....	53
Segregation of Duties.....	54

Selection of Contractor

We understand from discussions with the Telecom Maintenance Engineer that the contract labour requirement for Telecom Maintenance was put out to tender and was awarded on a percentage basis to [REDACTED], [REDACTED] & [REDACTED].

Finding

We were informed that Telecom Maintenance follows the steps set out below for its Contracted Labour:

- The Supervisors and Telecom Maintenance Engineer discuss the labour requirements on a weekly basis.
- The outcome of these meetings (i.e. the labour requirements) was not always documented. We understand that recently a new procedure has been put in place whereby the Supervisors complete an excel spreadsheet detailing the labour required and submits same to the Telecom Maintenance Engineer.

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FINDING & RECOMMENDATIONS- IVMSN PROCUREMENT WALKTHROUGH
SE&T TELECOMS MAINTENANCE - LABOUR HIRE

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- The contractor is selected by the Telecom Maintenance Engineer on the basis of availability to supply staff at the time and also what contractor may have the capacity to fulfil the task in its entirety. Also contractors are employed based on experience of completing tasks. They may already be employed by IE in completing similar tasks.
 - The Telecom Maintenance Engineer creates a service entry on SAP and a service entry form is generated.
 - The Telecom Maintenance Engineer/Supervisors/relevant individual contacts the contractor by either phone call or e-mail with the labour requirements discussed with the Supervisor.
 - The contractor invoices are reviewed in detail and approved by the Telecom Accountant and also by the Telecom Maintenance Engineer.
- For the sample selected, there was no documented evidence presented to us to support the planning for the work between the Telecom Maintenance Engineer and Supervisors and the requests to the contractor.

The above procedures followed at by SE&T Telecom Maintenance are not currently documented.

Recommendation

76. Notes should be maintained of the agreed weekly labour requirements based on the discussions between the Telecom Maintenance Engineer and the Supervisors.
77. Formal communication should be in place and on the file regarding the weekly requests made to contractors. A review should be carried out between the original request and the tender requirements, the invoice, the supporting timesheets work dockets and the rates per tender.

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FINDING & RECOMMENDATIONS- EMSN PROCUREMENT WALKTHROUGH
SE&T TELECOMS MAINTENANCE - LABOUR HIRE

78. Good practice would suggest that these procedures should be formally documented detailing who should carry out each task, the timeframes involved and what documents are required to be maintained etc. Once the above procedures are finalised, these should be circulated to the relevant staff members, reviewed and updated as and when required.

Approval of Labour Requests

The Supervisors and Telecom Maintenance Engineer discuss the labour requirements on a weekly basis. We understand that up to June 2007 the outcome of these meetings were not formally documented. Since June 2007 the Supervisors complete on a weekly basis an excel spreadsheet which details the labour required.

Finding

For our sample selected:

- There was no documentation on file presented to us in relation to the discussion that had taken place. We were informed by the Telecom Maintenance Engineer that the discussion took place between the Telecom Maintenance Engineer and the Supervisors, but that it is not formally documented. We acknowledge that the sample selected was prior to June 2007.
- Subsequent to the discussion between the Telecom Maintenance Engineer and the Supervisors, there was no documentation on file to confirm that the request had been formally communicated to the contractor. Therefore, it is not possible to compare the amount invoiced by the contractor to an original request. Good practice would suggest that a check should also be done between the original request and the amount

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SE&T TELECOMS MAINTENANCE – LABOUR HIRE

invoiced by the contractor, with an explanation being sought and documented for any differences.

Recommendation

79. The outcome of the meeting between the Telecom Maintenance Engineer and the Supervisors, in relation to the labour requirements, should be documented and available.
80. All requests to contractors for labour requirements should be in writing, either by way of email, fax or a standard form. A check should be carried out between the contractor's invoice and the original documented request. Any differences between these should be explained and a note put on file.

Valuation of Work

We were informed by the Telecom Maintenance Engineer that he creates a service entry form on SAP for the work requested, which includes an estimated value of the work to be performed.

We understand that since SAP has been modified in June 2007 to include rates per labour type, the Supervisors complete on a weekly basis an excel schedule which outlines their labour requirement for the week going forward and the rate per labour required

Finding

As a result of our walkthrough, the following issues were noted

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FINDING & RECOMMENDATIONS- TMSN PROCUREMENT WALKTHROUGH

SE&F TELECOMS MAINTENANCE - LABOUR HIRE

There was no analysis presented to us of the estimated total value for the work to be performed. We acknowledge that the sample selected was prior to the introduction of the SAP configuration.

Recommendation

81. An analysis of the estimated value of the work to be performed should be kept on file to support the value of the work to be performed i.e. rates x labour requirements.

Contractor Invoices and Supporting Documentation

Contractor invoices are required to be supported by appropriate documentation (i.e. signed timesheets or work dockets).

Finding

The following issues were identified in relation to a sample of invoices reviewed:

- As an original request form is not completed it is not possible to reconcile the contractors invoice to an original request. In addition, for the sample selected, the details entered onto SAP did not agree to the invoice timesheets. Good practice would suggest that all invoices should be reconciled to an original request in order to ensure that goods invoiced were requested.
- The details and the value of the invoice did not agree to the signed timesheets, for example, the signed timesheets had included an additional man and ganger that had not been included on the invoice. There was no explanation on file to support the differences between the invoices and the backup timesheet.

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FINDING & RECOMMENDATIONS- IVISN PROCUREMENT WALKTHROUGH
SE&T TELECOMS MAINTENANCE – LABOUR HIRE

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- The role of the individual who has approved the timesheets is not detailed, this makes it difficult to determine if the appropriate individual has approved the timesheets.

Recommendation

82. Consideration should be given to the introduction of a formal request form for labour similar to that used in Infrastructure Maintenance. The original request should be compared to the contractors invoice and signed timesheets.
83. A note should be on file to explain any differences between the signed timesheets and the contractors invoice.
84. The role of the individual approving should be included on the timesheets so that it is easy to determine at what level the timesheets have been reviewed.

Segregation of Duties

Finding

It is noted from discussions with the Telecom Maintenance Engineer that he is involved in the following stages of procuring contracted labour for Telecom Maintenance:

- Discusses the labour requirement with the supervisors;
- Selects the contractor to complete the work;
- Inputs the requested labour on SAP by way of creating a new service entry form;
- Reviews the invoices received by way of two way cross check to the signed timesheets; and
- Approves the invoices by way of an A2 release (post 1 Sept 2007).

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FINDING & RECOMMENDATIONS- IMISN PROCUREMENT WALKTHROUGH
SE&T TELECOMS MAINTENANCE - LABOUR HIRE

Recommendation

85. Good practice would suggest that the tasks involved in the procurement of contracted labour should be segregated between individuals. Consideration should be given to involving another individual, at the appropriate level, to carry out some of the tasks presently being undertaken by the Telecom Maintenance Engineer.

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PROCUREMENT WALKTHROUGH – FINDINGS & RECOMMENDATIONS

SE&T NEW WORKS FINDINGS

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FINDING & RECOMMENDATIONS- TMSN PROCUREMENT WALKTHROUGH
SE&T NEW WORKS – PLANT HIRE

SE&T NEW WORKS - PLANT HIRE

SE&T New Works (Plant Hire) findings and recommendations are covered under the following headings:

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Selection of Contractor.....	56
Valuation of Work.....	58
Approval of Pro-forma Invoice.....	58
Contractor Invoices and Supporting Documentation.....	59

Selection of Contractor

We understand from discussions with the Construction Manager that the plant hire requirement for SE&T New Works went out to tender and that a number of contractors were selected per location/per line for the provision of plant hire.

Finding

We were informed that SE&T New Works follow the procedures set out below for its plant hire requirements:

- Scheme plans are drawn up for each project being undertaken.
- The Construction Manager requests the plant hire from the selected contractor in accordance with the scheme plans.
- The work is completed and timesheets are signed on-site at the end of each week by an Iarnród Éireann member of staff.

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FINDING & RECOMMENDATIONS- IMSS PROCUREMENT WALKTHROUGH
SE&T NEW WORKS – PLANT HIRE

- The contractor issues a pro-forma invoice to the Construction Manager, for his review and approval. The Construction Manager notes the WBS code to which the work relates on the pro-forma invoice.
- The Clerical Officer creates a service entry on SAP based on pro-forma invoice coded by the Construction Manager and a service entry form is generated.
- The Clerical Officer issues the service entry number to the contractor via e-mail.
- The contractor sends a copy invoice and the signed timesheets to the Construction Manager. The invoice and timesheets are reviewed in detail and approved by the Project Accountant.

For the sample selection, there was no documented evidence presented to us to support the planning for the work, for example:

- How the Construction Manager requests the plant hire required from the selected contractor.
- Whether the actual work performed and invoiced is monitored in accordance with the scheme plans and the tender.

Recommendation

86. Formal communication should be in place and documented on the file regarding the requests made to contractors. A review should be carried out between the original request, the invoice, the supporting timesheets work dockets and the rates per the plant hire database prior to the invoice being approved and processed

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FINDING & RECOMMENDATIONS- IMISN PROCUREMENT WALKTHROUGH
SE&T NEW WORKS – PLANT HIRE

87. There should be documentary evidence that consideration has been given to the work actually performed and invoiced to that set out in the tender document, together with the scheme plans.

Valuation of Work

We were informed that the Clerical Officer creates a service entry form on SAP for the work requested, after the work has been completed and the pro-forma invoice has been received from the contractor.

Finding

As a result of our walkthrough, the following issue was noted:

An estimate of the work to be performed is not calculated prior to the work being requested from the contractor. This does not represent good practice and does not facilitate the reconciliation of the contractor's invoice to the plant originally requested.

Recommendation

88. An estimated value of the work to be performed should be calculated prior to the work being requested and an analysis of this calculation should be kept on file to support the value of this work i.e. rates x plant requirements. This value should be input onto SAP and the service entry created prior to the work commencing.

Approval of Pro-forma Invoice

The contractor provides the Construction Manager with a pro-forma invoice for the work completed.

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FINDING & RECOMMENDATIONS- EMSN PROCUREMENT WALKTHROUGH
SE&T NEW WORKS – PLANT HIRE*Finding*

The following issues were identified in relation to a sample of invoices reviewed:

The pro-forma invoices are sent by the contractor to the Construction Manager. The Construction Manager discussed the content of the pro-forma invoice with his Inspector by way of telephone conversation as the Inspector maintained the signed timesheets at his office. We understand that the discussions between the Construction Manager and the Inspectors take place on an informal basis and the pro-forma invoice is not physically matched to the signed timesheets.

Following the Construction Manager's review of the pro-forma invoice, the Clerical Officer inputs the details onto SAP and creates a service entry form. The details input onto SAP are based on the pro-forma invoice, rather than on the original request.

Recommendation

- 89. Signed timesheets received on-site should be sent to the Construction Manager in order to facilitate a physical cross check to the pro-forma invoices.
- 90. Consideration should be given to creating the service entry form onto SAP prior to the plant hire being requested from the contractor and prior to the work commencing. The details should be input onto SAP based on an original documented request, rather than subsequent to the work being carried out.

Contractor Invoices and Supporting Documentation

Contractors' invoices are required to be supported by appropriate supporting documentation (i.e. signed timesheets or work dockets).

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FINDING & RECOMMENDATIONS- IMISX PROCUREMENT WALKTHROUGH

SE&T NEW WORKS - PLANT HIRE

Finding

The following issues were identified in relation to a sample of invoices reviewed:

- As an original request form is not completed it was not possible to reconcile the contractors' invoice to an original request. Good practice would suggest that all invoices should be reconciled to an original request in order to ensure that goods invoiced were requested.
- The date the timesheets were approved and the role of the individual who had approved the timesheets was not detailed, making it difficult to determine when the timesheets were approved and if the appropriate individual has approved them.

Recommendation

91. Consideration should be given to the introduction of a formal request form for plant hire similar to that in other Divisions within the organisation.
92. The role of the individual approving the timesheets and the date the timesheets are approved should be noted on the timesheets so that it is easy to determine at what level the timesheets have been reviewed and whether they were approved on site when the work was completed.

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FINDING & RECOMMENDATIONS- JMSN PROCUREMENT WALKTHROUGH
SE&T NEW WORKS – CONTRACTED LABOUR

SE&T NEW WORKS – CONTRACTED LABOUR

SE&T New Works (Contracted Labour) findings and recommendations are covered under the following headings:

HEADING	PAGE
Selection of Contractor.....	61
Approval of Pro-forma Invoice	62
Contractor Invoices and Supporting Documentation.....	63

Selection of Contractor

We understand from discussions with the Construction Manager that the requirement for contracted labour within SE&T New Works was put out to tender and that [REDACTED] and [REDACTED] were awarded the contract on a 50:50 basis.

Finding

We were informed that SE&T New Works follows the procedures set out below for its contracted labour requirements:

- Scheme plans are drawn up for each project being undertaken.
- The Construction Manager requests the labour from the selected contractor in accordance with the scheme plans.
- The work is completed and timesheets are signed on-site at the end of each week by an Iarnród Éireann member of staff.
- The contractor issues a pro-forma invoice to the Construction Manager for his review and approval. The Construction Manager notes the Purchase Order Number on the pro-forma invoice.

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FINDING & RECOMMENDATIONS-IMSN PROCUREMENT WALKTHROUGH
SE&T NEW WORKS – CONTRACTED LABOUR

- The Clerical Officer receipts the pro-forma invoice against the Purchase Order on SAP.
- The contractors invoice is sent directly to Accounts Payable.

For the sample selected, there was no documented evidence presented to us to support the planning of the work, for example:

- How the Construction Manager requested the labour required from the selected contractor; or
- Whether the actual work performed and invoiced is monitored in accordance with the scheme plans and the tender.

Recommendation

93. Formal communication should be in place and documented on the file regarding the requests made to contractors. A review should be carried out between the original request and the scheme plans, the invoice, the supporting timesheets/work dockets and the rates agreed per the tender prior to an invoice being approved and processed.

94. There should be documentary evidence that consideration has been given to the work actually performed and invoiced to that set out in the tender agreement, together with the scheme plans.

Approval of Pro-forma Invoice

The contractor provides the Construction Manager with the pro-forma invoice for the work completed

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FINDING & RECOMMENDATIONS- IMSN PROCUREMENT WALKTHROUGH
SE&T NEW WORKS – CONTRACTED LABOUR

Finding

The following issues were identified in relation to a sample of invoices reviewed:

The Construction Manager discusses the content of the invoice with his Inspector. The Inspector has maintained the signed timesheets on-site. We understand that the discussions between the Construction Manager and the Inspectors take place on an informal basis and the pro-forma invoice is not physically matched to the signed timesheets.

Recommendation

95. All timesheets received on-site should be sent to the Construction Manager in order to facilitate a physical cross check of pro-forma invoices to signed timesheets.

Contractor Invoices and Supporting Documentation

Contractor invoices were previously received by the Construction Manager and were required to be supported by appropriate documentation (i.e. signed timesheets or work dockets).

We understand from our discussions with the Construction Manager that currently the pro-forma invoice is being receipted on SAP by the Clerical Officer and the contractor's invoice is being sent directly to Accounts Payable.

Finding

The following issues were identified in relation to a sample of invoices reviewed. It should be noted that the sample selected was part of the previous system where the contractor's invoice was sent to the Construction Manager

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FINDING & RECOMMENDATIONS- TMSN PROCUREMENT WALKTHROUGH
SE&T NEW WORKS – CONTRACTED LABOUR

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- As an original request form is not completed it is not possible to reconcile the contractor's invoice to an original request. Good practice would suggest that all invoices should be reconciled to the original request in order to ensure that contracted labour invoiced was what was originally requested.
 - The pro-forma invoice and the invoice did not agree to the signed timesheets provided e.g. the pro-forma invoice and the invoice included an extra hour of labour and 6 hours for a transit van, which were not on the timesheet. An explanation of this difference was not documented on file.
 - The date the timesheets are approved and the role of the individual who has approved the timesheets is not detailed, making it difficult to determine when the timesheets were approved and if the appropriate individual has approved them.

Recommendation

96. Consideration should be given to the introduction of a formal request form for labour similar to that used in Infrastructure Maintenance.
97. A note should be on file to explain any differences between the pro-forma invoice, invoice and timesheet. Where additional requirements arise after the initial request has been submitted, evidence of this should be documented by the Construction Manager to facilitate the review matching of the invoice, pro-forma invoice, timesheets and original request.
98. The role of the individual approving the timesheets and the date the timesheets are approved should be noted on the timesheets so that it is easy to determine at what level the timesheets have been reviewed and whether they were approved on site when the work was completed.

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FINDING & RECOMMENDATIONS – IMISN PROCUREMENT WALKTHROUGH

SE&T NEW WORKS – CONTRACTED ELECTRICAL LABOUR

SE&T NEW WORKS – CONTRACTED ELECTRICAL LABOUR

SE&T New Works findings and recommendations (Contracted Electrical Labour) are covered under the following headings:

HEADING	PAGE
Selection of a Contractor.....	65
Valuation of Work.....	67

Selection of a Contractor

We understand from discussions with the Construction Manager that the requirement for contracted electrical labour within SE&T New Works went out to tender and that [REDACTED] was awarded the contract.

Finding

We were informed that SE&T New Works follow the procedures set out below for its contracted electrical labour requirements:

- The Construction Manager discusses the projects and the labour required with his Inspectors.
- The Construction Manager requests the labour from [REDACTED] in accordance with the discussions with Inspectors.
- The work is completed and timesheets are signed on-site at the end of each week by an Iarnród Éireann member of staff.
- The contractor issues the Construction Manager with a spreadsheet of the hours worked during the month and the spreadsheet is supported by signed timesheets.

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FINDING & RECOMMENDATIONS- TMSN PROCUREMENT WALKTHROUGH
SE&T NEW WORKS – CONTRACTED ELECTRICAL LABOUR

- The Construction Manager reviews the spreadsheet and cross checks the details to the supporting timesheets.
- The Construction Manager inputs the details of hours worked per the spreadsheet, per project onto SAP and creates a service entry. A service entry form and number is then generated.
- The Construction Manager issues the service entry number to the contractor.
- The contractor's invoices are received and reviewed in detail and approved by the Project Accountant and the Construction Manager.

For the sample selection, there was no documented evidence presented to us to support:

- The planning for the labour requirements.
- How the Construction Manager requested the labour required from [REDACTED].
- Whether the actual work performed and invoiced is monitored in accordance with the tender.

Recommendation

99. On a regular basis, the Construction Manager and the Inspectors should consider the contracted labour requirements on a more formalised basis. Notes should be maintained of the agreed contracted labour requirements based on the discussions between the Construction Manager and the Inspectors.
100. Formal communication should be in place and documented on the file regarding the requests made to contractors. A review should be carried out between the original request, the invoice and the supporting timesheets prior to an invoice being approved and processed.

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FINDING & RECOMMENDATIONS-IMSN PROCUREMENT WALKTHROUGH
SE&T NEW WORKS – CONTRACTED ELECTRICAL LABOUR

101. There should be documentary evidence that consideration has been given to the work actually performed and invoiced to that set out in the tender agreement.

Valuation of Work

Finding

As a result of our walkthrough, the following issues were noted:

- An estimate of the work to be performed is not calculated prior to the work being requested from the contractor. This does not represent good practise and does not facilitate the reconciliation of the invoice received to the contracted electrical labour requested.
- The service entry form is generated after the work has been completed and is based on the spreadsheet details provided by the contractor.

Recommendation

102. An estimated value of the work to be performed should be calculated prior to the work being requested from the contractor and an analysis of this calculation should be kept on file to support the value of the work to be performed i.e. rates x labour requirements.
103. This value should be input onto SAP and the service entry created prior to the work commencing.

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PROCUREMENT WALKTHROUGH – FINDINGS & RECOMMENDATIONS

DIFFERENCES IN DIVISIONAL PROCEDURES

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FINDING & RECOMMENDATIONS- PROCUREMENT WALKTHROUGH
DIFFERENCES IN DIVISIONAL PROCEDURES

DIFFERENCES IN DIVISIONAL PROCEDURES

Differences in Divisional procedures are covered under the following headings:

HEADING	PAGE
Selection of Contractor - Infrastructure Maintenance (Plant)	68
Completion of Forms	69
Review of contractors Invoice and Supporting Documentation	72

Selection of Contractor - Infrastructure Maintenance (Plant)

Finding

In the three Divisions visited, different procedures had been followed in relation to valuing the work from a review of the plant hire database and the selection of the contractor.

In Dublin, the work is valued by the Clerical Officer, who prepares a summary of the total price of the work for the 3 lowest priced contractors. This is then forwarded to the ADE to review and to select a suitable contractor. The Clerical Officer's summary provides evidence that value for money had been considered and also provides the ADE with the total value of the work, prior to his/her selection.

In Limerick, a print out is generated by the Clerical Office of the relevant contractors rates, but he/she does not prepare a summary of the total price of the work for the 3 lowest contractors. The print out is then forwarded to the ADE in order to select a contractor. Once the contractor has been selected by the ADE, the value is then computed by the Clerical Officer. For the transaction selected, there was no documentary evidence on file as to how the ADE had selected the contractor in question or on what basis this decision was made i.e. based on price, experience, availability etc.

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FINDING & RECOMMENDATIONS- PROCUREMENT WALKTHROUGH
DIFFERENCES IN DIVISIONAL PROCEDURES

In Athlone, the ADE or Accountant generates a print out from the database of the suitable contractors and their rates. The ADE reviews the printout and selects a contractor but does not document that a value for money analysis has been carried out. Once the contractor has been selected by the ADE, the value of the work to be performed by the contractor is then computed by the Clerical Officer.

Recommendation

- 104.** Consistent procedures should be carried out between the Divisions in relation to valuing the work to be performed by the contractor.
- 105.** There should be documentation on file to support the fact that a value for money analysis has been carried out. If the lowest priced contractor has not been selected, a note should be on file to support the approval of the contractor i.e. based on price, service and availability, safety record and system, and machine suitability and maintenance.

Completion of Forms*Finding*

Our work highlighted that different forms and different versions of forms, are being used to request both Infrastructure Maintenance and SE&T projects across the Divisions. The table overleaf summarises our findings, based on the transactions selected.

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FINDING & RECOMMENDATIONS- PROCUREMENT WALKTHROUGH
DIFFERENCES IN DIVISIONAL PROCEDURES

DIVISION	INFRASTRUCTURE MAINTENANCE	SE&T CONSISTING OF TABLE FORMAT THROUGHOUT THE REPORT
Dublin	<p>Plant Hire and Labour:</p> <p>Request for Plant and Machinery Hire form. However, two different versions of this form had been noted.</p>	<p>Labour:</p> <p>Request for Hire of contractor for Signaling and Electrical Work form</p>
Limerick	<p>Plant Hire:</p> <p>Request for Plant and Machinery Hire form - different version to Dublin</p> <p>Labour:</p> <p>We understand that there is no labour under Infrastructure Maintenance</p>	<p>Plant Hire:</p> <p>Request for Plant and Machinery Hire form</p> <p>Labour:</p> <p>Request for Requisition form</p>
Athlone	<p>Plant Hire:</p> <p>Request for Plant and Machinery Hire form</p> <p>Labour:</p> <p>No form is used</p>	<p>Plant Hire:</p> <p>Request for Plant and Machinery Hire form</p> <p>Labour:</p> <p>We understand there is no SE&T Contracted Labour at this Division</p>

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FINDING & RECOMMENDATIONS- PROCUREMENT WALKTHROUGH
DIFFERENCES IN DIVISIONAL PROCEDURES

Recommendation

106. A review should be carried out on the forms currently being used by Permanent Way Inspectors and SE&T Inspectors at each Division.
107. The required forms should be included in the detailed Operational Manual, to be compiled.
108. In addition, a review should be carried out on the form and content of the agreed forms, to ensure that they are adequate, easy to use/complete and provide only and all the relevant information.

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FINDING & RECOMMENDATIONS- PROCUREMENT WALKTHROUGH

DIFFERENCES IN DIVISIONAL PROCEDURES

Review of contractors Invoice and Supporting Documentation

Finding

Different procedures are in place in relation to checking and approving contractors' invoices. The table below presents a summary of who performs the check between the original request, the contractor's invoice and the supporting timesheets/work dockets.

DIVISION	INFRASTRUCTURE MAINTENANCE	SE&T
Dublin	Plant Hire and Labour: Clerical Officer	Labour: Clerical Officer and SE&T Inspector
Limerick	Plant Hire: Clerical Officer and ADE Labour: We understand that there are no labour requirements for this Division for Infrastructure Maintenance	Plant Hire & Labour: Timesheets and invoices are checked by the SE&T Inspector. The original request, the service entry, the invoice are subsequently checked by the Clerical Officer. (The timesheets are maintained by the SE&T Inspector and are not forwarded to the Clerical Officer). The Signaling Engineer reviews the invoice only.
Athlone	Plant Hire: Clerical Officer and Accountant Labour: Accountant	Plant Hire: Clerical Officer and Accountant Labour: No SE&T contracted labour

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FINDING & RECOMMENDATIONS- PROCUREMENT WALKTHROUGH
DIFFERENCES IN DIVISIONAL PROCEDURES

Recommendation

109. The review and approval of contractor's invoices should be consistently applied across all three Divisions. This should be included in the operational procedures document, which we understand is currently being drafted.

APPENDIX 6

MANAGEMENT OF STOCK REVIEW

– PROGRAMME OF WORK

– FINDING & RECOMMENDATIONS

SAMPLE QUESTIONNAIRE & RESULTS

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MANAGEMENT OF STOCK – PROGRAMME OF WORK

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MANAGEMENT OF STOCK
PROGRAMME OF WORK

Information Gathering and Examination

This section of our report presents the draft interim findings and recommendations made in relation to the transaction testing conducted under Term of Reference 3.

This work consisted of the following:

- Interviewing staff;
- Reviewing the Stock Procedures Manual;
- Transaction testing carried out in Portlaoise, Limerick, Athlone and Dublin; and
- Attendance at Nationwide Stock Count and reviewing stocktaking files in Inchicore.

We also issued questionnaires to 40 staff involved in stock maintenance in Iarnród Éireann to ascertain each individuals understanding of what the Management of Stock system should be.

The table below summarises the areas reviewed at each location which we visited.

Areas tested	Portlaoise	Limerick	Athlone	Dublin
Stock Transfers to Portlaoise	✓	✓	✓	✓
Stock Transfers from Portlaoise	✓	✓	✓	✓
Materials Taken Up		✓	✓	✓
Materials Used		✓	✓	✓
Materials Reclassified		✓	✓	✓
Stock taking	✓			✓

The objective of our work was to ensure that stock procedures were being followed in accordance with the materials procedures manual and to identify any areas of weakness.

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MANAGEMENT OF STOCK
PROGRAMME OF WORK

A detailed review of the following areas was carried out in January 2008

- Dismantling of panels, retention of timber sleepers and scrapping of steel;
- Security of line-side stock within Divisions; and
- Inspection of the system in place for ballast which is currently stored in Lisduff, Co. Laois.

Meeting

We met with the following individuals as part of our walkthrough testing:

- Divisional Accountants;
- Divisional Stock Processors;
- Materials Manager Infrastructure;
- Depot Superintendent, Portlaoise;
- Rail Depot Facilitator, Portlaoise; and
- Production Manager, Portlaoise.

Reporting

Our findings and recommendations are set out below as follows:

- Portlaoise & Waterford stock findings
- Line-side stock findings
- Stocktaking findings
- Raw materials

Further findings and recommendations may be noted during our fieldwork under Terms of Reference 2 and 4 which will be included in our final report.

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MANAGEMENT OF STOCK
PROGRAMME OF WORK

Acknowledge

During the course of our work, we met with a number of personnel in the Portlaoise Depot, Dublin, Athlone and Limerick Divisions. We are grateful for the manner in which Iarnród Éireann staff facilitated us, for the time made available to us and also for the high level of courtesy, assistance and cooperation afforded to us at all times during the assignment.

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MANAGEMENT OF STOCK – FINDINGS & RECOMMENDATIONS

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MANAGEMENT OF STOCK
FINDINGS & RECOMMENDATIONS

FINDINGS & RECOMMENDATIONS

Examination of the management of line-side materials with a particular focus on the movement and accounting for stocks into and out of the Portlaoise Sleeper Plant

The examination of line-side materials was conducted primarily by direct interview and questionnaire supplemented by transaction testing carried out in the Portlaoise Hub and the Divisional Offices of Dublin, Limerick and Athlone and line side inspection at Wicklow and Enniscorthy.

Findings and recommendations are covered under the following headings:

HEADING	PAGE
Portlaoise Stock.....	5
A) Movement in - Receipts from Line-side	5
B) Receipts from Waterford.....	7
C) Transfers from Portlaoise to Line-side.....	8
D) Security of Stock at Portlaoise	8
Line-side Stock.....	9
A) Materials Taken Up.....	9
B) Materials Used.....	11
C) Materials Re-classified.....	12
Stock-takes	13
Movement in - Raw Materials.....	15
Dismantling of panels, retention of timber sleepers and scrapping of steel.....	16
Security of line-side stock within Divisions	17
Inspection of the system in place for ballast which is currently stored in Lisduff, Co. Laois.....	18
Questionnaire I.....	23
Questionnaire II.....	29

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FINDINGS & RECOMMENDATIONS

Portlaoise Stock

A) Movement in - Receipts from Line-side

From our testing and discussions with Iarnród Éireann staff the following were the main issues arising in relation to receipts into the Portlaoise Hub from Line-side.

Findings

TRANSACTIONS SELECTED FOR EXAMINATION	COMPLIANT	NON-COMPLIANT
Fully Compliant	9%	91%
Part A forwarded to sending Divisional Office	91%	9%
Part B signed by Portlaoise Representative receiving stock	23%	77%
Details of stock transferred, recorded correctly	39%	61%
Material Codes on forms correct & all required codes included	43%	57%
Quantities correct on forms	35%	65%

- Current procedure is such that Per Way Inspectors are required to send their Stock Transfer forms to the Divisional offices at the end of each period while the stock can be sent to Portlaoise at the beginning of the period. The sending division cannot remove the stock from its divisional stock until it receives the transfer form from the Per Way Inspector and the stock transferred cannot be receipted into Portlaoise until it is removed from the stock of the sending division. Time lag in processing the paperwork could result in stock being returned to the Portlaoise Hub and being sent out again to another division without ever being recorded on SAP as receipted in the Portlaoise Hub.

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- As outlined in the table above we also found instances of no material advice receipt being sent with stock material coding and quantities on material advice receipt incorrectly being recorded.
- As stated in the table above only 23% of the forms received in Portlaoise were signed by a Portlaoise representative. The reason primarily for this is that the majority of stock transferred was incorrectly classified and therefore the Portlaoise Hub could not sign off as receiving the materials as set out on the Materials Advice Receipt.
- Advance notice is not always given to staff in Portlaoise that materials are coming in.
- These problems are causing significant difficulties for the staff in Portlaoise. The Rail Depot Facilitator has designed a template which is used to record the correct SAP code and correct quantities transferred into Portlaoise from line-side. The completion of the template with what was actually transferred into Portlaoise is a slow and time consuming task for the Team Leaders and all concerned. The accurate completion of the stock transfer forms would ensure that stock physically coming in would agree to the transfer form thus making it a much simpler and more efficient task.
- When the stock returned to Portlaoise is correctly identified the process of getting the inspector to amend what he has filled in on his form can again be a time consuming task.

Recommendations

- I. Transfer forms need to be submitted to the Divisional Offices on a weekly basis to ensure the timely processing of stock transfers and to ensure all stock is captured on the system.

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FINDINGS & RECOMMENDATIONS

2. Much greater attention to detail needs to be adhered to by Inspectors when completing transfer forms.
3. An independent person with significant stock knowledge should be checking what the inspector is sending back prior to it being loaded onto a train. This person should be held accountable for any discrepancies.
4. Advance notice should always be given as to when materials are being returned.
5. Introduce pre-printed forms with the most used codes already inserted.

B) Receipts from Waterford

██████████ supplies rail to Iarnród Éireann through Waterford Port. Advance notice is given as to when the shipment is due to arrive in Waterford to allow staff from Portlaoise to go to Waterford to ensure the delivery docket agrees to what is physically received in Waterford. Any discrepancies are handled at this time. Stock is then receipted into SAP location X001 which is the Waterford Stock Location using the delivery docket. Portlaoise staff carry out the physical transfer of the stock from Waterford to Portlaoise in piecemeal stages.

Finding

- No formal document exists to document this transfer even though approximately €1.9 million of steel has been transferred from Waterford to Portlaoise since January 2007. See Appendix 10 for an example of the type of documentation currently being used to record the physical transfer of stock from Waterford to Portlaoise.

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- Currently this non-standard document is being used as the source document to record the transfer onto the SAP system. The information is also recorded by the Rail Depot Facilitator on an excel sheet.

Recommendation

6. While the details on the paper being used to transfer rail from Waterford to Portlaoise may be accurate, we feel it is important that this transfer should be standardised and treated in a similar way to any other transfer into Portlaoise.

C) Transfers from Portlaoise to Line-side

To test this area we took a sample of 20 transfer sheets and tested to see if the transactions complied with the Iarnród Éireann '*Policies and Procedures for the Control of Infrastructure Linestocks*'.

Finding

- All transactions were compliant.

D) Security of Stock at Portlaoise

In our questionnaire to members of staff at Portlaoise we enquired as to how many entrances there are to the yard at Portlaoise.

Finding

- The answers we received varied from three entrances, two entrances and one entrance. From our visits to Portlaoise we observed two entrances and were informed there was a third entrance at another part of the site. On one of our visits the main entrance was manned by a security guard while the other entrance, opening onto a

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public road, was open and appeared to have no security presence. The site at Portlaoise spreads over approximately forty acres. The plant is not protected by 24 hour security which, given the nature and value of the stock, should be reviewed. There are also no security cameras on the premises.

Recommendation

7. A full review of security procedures at Portlaoise depot should be undertaken to assess any areas of risk and to confirm the terms of engagement of the security company. These terms of engagement should be reviewed to consider the inclusion of additional controls by security personnel over the entry and exit of stock from the Depot.

Line-side Stock

A) Materials Taken Up

To test this area we selected a sample of 20 materials covering transactions for each of the three Divisions for the years 2006 and 2007.

Findings

- Per the Iarnród Éireann *Policies and Procedures for the Control of Infrastructure Linestocks* all work must be planned and implemented in consultation with the Divisional Engineer. There is no documentary evidence to suggest this is happening and from our questionnaire responses we note that in some cases Inspectors stated that they make the decisions as to what materials are to be taken up.
- Before materials are taken up out of the ground, there appears to be no documented evidence of what is expected/planned to be taken up. Consequently there can be no

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check carried out to ensure that what was expected agrees to what was actually taken up. We see this as an area of weakness.

- Per the Iarnród Éireann *'Policies and Procedures for the Control of Infrastructure Linestocks'* when material taken up forms are issued by the Divisional Engineer's office the divisional database is to be updated with the recipients of the forms and the database updated again with the details of the Materials Taken Up when forms are completed. We found no evidence that such a database exists.
- This issue was illustrated when a form was reviewed with a note that stated that *'of 18 sleepers taken up only 4 could be re-used. All others would be unfit for re-use.'* There is no independent person checking and documenting this account.
- Per the Iarnród Éireann *'Policies and Procedures for the Control of Infrastructure Linestocks'* the Per Way Inspector is to forward all completed Materials Taken Up forms on the last Thursday of each period to the Divisional Office. In the meantime the materials taken up could have been sent back to Portlaoise without ever being recorded as taken up out of the ground in the Per Way.
- Per the Iarnród Éireann *'Policies and Procedures for the Control of Infrastructure Linestocks'*, Traffic Light Reports are required to highlight areas of non-compliance however these do not seem to be in use. The most recent Traffic Light Report we have seen was for November 2006.

Recommendations:

8. Approval of what is coming out of the ground needs to be documented and signed off by either the DE or ADE before the materials are taken up.

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9. The DE, ADE or someone suitably qualified who is independent to the Per Way Inspector should verify that what actually comes up out of the ground agrees with what was expected to come up and also that any discrepancies are fully investigated.
10. A Divisional Database should be set up in order to record the forms issued and to comply with the stated procedures as set out in the Policies and Procedures for the Control of Infrastructure Linestocks.
11. Materials Taken Up forms should be sent into the Divisional offices on a weekly basis to ensure stock is processed in the most efficient manner.
12. Traffic light reports should be used to highlight areas of non compliance.
13. In summary, the Iarnród Éireann '*Policies and Procedures for the Control of Infrastructure Linestocks*' should be enforced.

B) Materials Used

We selected 20 Materials Used Forms from each of the three Divisions for the years 2006 and 2007.

Findings

- We have found no documentary evidence to suggest there is an independent check on Materials Used Forms to ensure that what was documented by the Per Way Inspector as being used was actually used.
- The same finding with regard to the Divisional database as stated in the findings for the Materials Taken Up Forms are also applicable here.

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- Materials Used Forms are only submitted to the Divisional office at the end of the period which does not allow for efficient stock processing

Recommendations

14. An independent check should be performed on Materials Used Forms to ensure what was stated on the forms as being used was actually used with appropriate sign-off.
15. Materials Used Forms should be sent into the Divisional offices on a weekly basis to ensure stock is processed in the most efficient manner.
16. A Divisional Database should be set up in order to record the Materials Used Forms issued and also to comply with the stated procedures as set out in the Iarnród Éireann '*Policies and Procedures for the Control of Infrastructure Linestocks*'.

C) Materials Re-classified

In total we looked at 24 Materials Reclassification forms from the three Divisions as very few reclassifications took place in the years considered, 2006 and 2007. For example only two reclassifications took place in Athlone Division.

Finding

- The stock manual states that authorisation must be obtained from either the Divisional Engineer or ADE before any reclassifications take place. Of the 24 reclassification forms examined none had any signature or Engineering Dept stamp from the DE or ADE.

Recommendation

17. All reclassification forms should be approved by the DE or ADE and signed off.

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Stock-takes

We attended the nationwide stock-take in Portlaoise on the 5th November 2007 as well as meeting the Materials Infrastructure Manager to review his files on previous stock-takes. Per Way Locations were visited in January to inspect the condition stock is stored line side.

Findings

The stock in Portlaoise in general is well managed. However we did note that production of concrete sleepers was ongoing during the stock-take making it somewhat more difficult for the stock counters to perform their jobs.

- As the Per Way Inspector has access to the SAP system, each Per Way Inspector knows what stock he is supposed to have in his Per Way before the stock counter arrives to check the inspectors stock.
- Two nationwide counts are performed by the Per Way Inspectors throughout the year and returns are submitted to Inchicore. Again the Per Way Inspectors have access to SAP so they are aware in advance what stock they are supposed to have in their location.
- Only two staff are employed as stock counters to carry out cycle counts in every location throughout the country. Per Way Inspectors receive lengthy notice prior to cyclical counts taking place. No random stock counts take place at short notice.

Other findings as identified by reviewing the stock reports in Inchicore

- Rail dismantled from Panels are not always input onto the SAP system or not reclassified correctly

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- Materials taken up out of the ground are not always recorded on SAP.
- After relaying has taken place the cut offs from the 144m strings of rail are not being reclassified from SAP code 65810 to SAP code 40864 which results in the misstatement of the valuation of rails.
- Old, obsolete and scrap material is disposed of before the paperwork is completed by the Per Way Inspector and before paperwork is forwarded to Divisional Offices.
- Second hand material is reclassified to old but not processed on SAP.
- Incidences of line-side stock either not properly stacked, overgrown by grass or partially covered with ballast.
- Panels recovered from relaying and transferred to Portlaoise before paperwork processed on SAP.
- Line-side stock in certain Per Ways is spread out along the line for miles. This can leave it very difficult to secure. While there can be logistical reasons for leaving certain stock at particular locations along the line, stock stored in this manner can be quite vulnerable.

Recommendations

18. PW Inspectors should not have access to what is recorded on SAP as being in their locations prior to the cycle count carried out by the stock counters.
19. Given the value of Iarnród Éireann stock, the two nationwide counts should be carried out by independent Iarnród Éireann staff. Additional independent staff should be

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deployed for this purpose or at least random checks should be undertaken by independent staff.

20. Processing of paperwork on a weekly basis to eliminate issues arising from paperwork not processed when the stock count takes place.
21. Use of traffic light reports to highlight non compliance with requirement to submit returns.
22. Where feasible, line-side stock should be stock piled and security put in place to safeguard the stock.
23. Additional resources should be provided to the Materials Manager of Infrastructure to carry out random stock take counts. These additional resources could also audit compliance with all stock procedures both line-side and within the Portlaoise depot. Alternatively, consideration should be given to allocating this role to existing staff – e.g. Divisional stock processors.

Movement in - Raw Materials

Sand, Cement and Gravel are the main raw materials used in the production of concrete sleepers.

Finding

- From testing carried out at the Portlaoise Hub we only found evidence of sand being weighed on the weighbridge. The cement and gravel are weighed by the supplier in their respective depots and the delivery docket is then signed by an Iarnród Éireann representative agreeing the weight. From speaking to staff on the ground we have

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been told that spot checks are performed on the cement and gravel however we did not see any evidence of such spot checks.

Recommendation

24. All sand, gravel and cement should be weighed on the weighbridge to ensure the amount being delivered is correct and ensure that these transactions are not open to potential fraudulent behaviour by suppliers.

Dismantling of panels, retention of timber sleepers and scrapping of steel

Given the extent of the number of panels throughout the divisions and the value of panels when they are dismantled into the various components it is important that the dismantling process is monitored and accurately recorded in SAP.

The following example illustrates the point:

A 60ft panel containing approximately 24 sleepers is valued at €4 per foot on SAP i.e. €240 for the panel, a nominal value. When this is dismantled there is approximately 3 tonne of steel to be disposed of ranging in value from €100 to €150 per tonne depending on market conditions. A sleeper on the open market is potentially worth approximately €30. The approximate market value of the three tonne of steel and the 24 sleepers on one panel is therefore potentially €1,170

Recommendation

25. While it has been noted that there is an embargo on the sale of sleepers in place for the last number of years for both health and environmental reasons, a review of the security in place of line side sleepers should be undertaken due to their potential value in the open market.

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26. Considering the potential value of the scrap material kept at line side. A review should be undertaken of the quantum and storage locations at line side.

Security of line-side stock within Divisions

Finding

To gain first hand experience of how stock is stored in the Divisions we visited the Wexford and Wicklow Divisions.

- In general stock was stored in an orderly fashion in both divisions however in some instances, weeds had become overgrown and covered items of stock making it difficult to count. In Wexford large quantities of panels are stored throughout the division at various locations. These panels are only being stored to be scrapped. Based on inspections undertaken by group internal audit however the security of line side stock is an issue as stock appears to be stored in vulnerable locations in many other Per Way locations.
- A review of records, such as Advice Receipts, Materials Taken Up Sheets, Materials Used Sheets and Materials Reclassification Sheets was undertaken and appeared to be in order in these locations. No issues were found with the records inspected.

Recommendation

27. Panels should be dismantled and scrapped as soon as possible. Following the dismantling, the removed sleepers should be brought to one central location to be stored securely until their disposal.
28. Resources should be put in place to ensure that the dismantling scrapping process is carried out effectively. Before dismantling takes place a record should be made of what quantity of sleepers are expected to be recovered post-dismantling. Also a record

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should be kept of what weight of steel will be expected to be recovered and capable of being sold. The expected amounts in both cases should be compared against the actual amount of sleepers and steel recovered with any large variances being investigated fully.

Inspection of the system in place for ballast which is currently stored in Lisduff, Co. Laois.

As part of our review of ballast, we visited one of the ballast depots for the country located at Lisduff, Co. Laois. A weighbridge is currently on-site and is being hired in to record the deliveries of ballast. In order to operate effectively, the weighbridge needs to be connected to a direct electricity supply to ensure it is calibrated correctly. It is understood that each time the electricity is disconnected the weighbridge needs to be recalibrated.

Finding

- As part of our review, we selected a sample of documents to compare the weight recorded by the weighbridge to the weight per the supplier's delivery docket. None of the sample selected showed both weights corresponding. The delivery docket was always found to be less than what was recorded by the weighbridge. The reason given was that the weigh bridge had not been calibrated correctly.

- There is no electricity on-site in Lisduff available to power the weighbridge. Instead a generator is used to provide electricity. Once the generator is switched off the direct supply of electricity is broken and therefore the weigh bridge needs to be recalibrated to weigh correctly.

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- Ballast is stored at approximately 11 different sites throughout the country. To our knowledge there are only 2 locations currently with weighbridges allowing staff to check the weight of deliveries of ballast.

Recommendation

29. Considering the cost associated with the installation and the monthly hire charge, consideration should be given to the installation of a direct electricity source to ensure the ballast can be weighed accurately.
30. In order to increase monitoring and control of delivery, a reduction in Ballast Depots could be considered going forward. Weighbridges located at each of these sites should also be considered in order to effectively record all deliveries.
31. Suppliers could be requested to supply a print-out from their weighbridge, attached to the delivery docket.

We recognise that solutions to this issue should take account of the cost/benefit aspects and practicality, considering constraints of location and availability of electricity supply.

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MANAGEMENT OF STOCK – QUESTIONNAIRE RESULTS

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RESULTS FROM QUESTIONNAIRE

RESULTS FROM QUESTIONNAIRE

We issued the questionnaire to ascertain each individuals understanding of the management of line-side materials.

In total we issued 40 Questionnaires of which three are still outstanding. Two responses are outstanding from Per Way Inspectors who have stated that they have sent their questionnaires in the post. The remaining questionnaire is outstanding as the Inspector has been absent from work. In general, from the feedback to the Questionnaires we received, Iarnród Éireann staff understand the stock system in accordance with the Iarnród Éireann *'Policies and Procedures for the Control of Infrastructure Linestocks'*. There were however some issues raised from responses received.

The following sample questions and responses included in the questionnaires circulated illustrate the understanding Iarnród Éireann staff have of the system but also highlight certain issues:

- 1) What forms do you send when stock is being transferred from your Per Way?

(Correct Answer: Materials Advice Receipt IE/S22/23)

Respondents Answers: 100% Correct

- 2) Do you always send a copy of the form to the Divisional Accountant?

(Correct Answer: Submit at end of period)

Respondents Answers: 100% Correct

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RESULTS FROM QUESTIONNAIRE

3) How do you know what codes to write on the forms?

(Correct Answer: Consult Line-side Stocks SAP Materials Codes and Descriptions Issue)

Respondents Answers: 100% Correct

4) Who authorises reclassifications?

(Correct Answer: Authorisation must be obtained from the DE or ADE or during a stock-take by Stock counter)

Respondents Answers:

39% stated the Per Way Inspector Authorises

53% DE or Stock Counters

9% no answer

5) Who decides what materials are to be taken up out of the ground?

(Correct Answer: The Divisional Engineer consults with the Chief Engineer)

Respondents Answers:

30% Per Way Inspector

70% Divisional Engineer

6) Do you have a copy of Iarnród Éireann "Policies and Procedures for Line Control of Infrastructure Linstocks"?

Respondents Answers:

Yes 48%

No 26%

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RESULTS FROM QUESTIONNAIRE

No answer 26th

7) In advance of a stock-take, do you have details of what should be in your location?

Respondents Answers

Yes 96%

No 4%

8) What security is there over line-side stock?

Respondents Answers: 35% stated that there is no security over their stock, while others went further stating their stock is vulnerable.

9) How many entrances are there to the Portlaoise Hub and how many are open during the day?

Answers of Respondents:

- 3 entrances, 1 open during the day
- 2 entrances, 1 open during the day
- 1 entrance
- Don't know

In summary, it is reasonable to assume from the responses received that the PWIs have a good understanding of the systems and procedures. The issue to be addressed is the apparent non-compliance with the stated procedures.

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QUESTIONNAIRE I SENT NOVEMBER 2007

QUESTIONNAIRE I

Questionnaire I:

Questionnaire I was sent to Portlaoise Depot Senior Management, Divisional Engineers and Divisional Accountants. All questionnaires sent stated that all answers treated as strictly confidential.

Name:
(1A) Stock Movements into Portlaoise
(1A.i) Raw Materials
(1) Who currently supplies the following raw materials: sand, cement, gravel and for how long has the said supplier been supplying?
(2) Please give reasons for any long term agreements with suppliers of the above raw materials?
(3) Are all deliveries of raw materials weighed and is the weight checked against the delivery docket?
(4) How is wastage from production monitored and accounted for?
(5) How is material usage in production monitored?
(6) How are items in production counted for stock-take purposes?
(7) If you feel that the above questions do not address all areas which you feel should be brought to our attention please give us your comments.
(1A.ii) Receipts From Line-side
(1) Is the Portlaoise Depot always given advance notice of stock that is coming into the Depot from line-side?
(2) Is the correct documentation always sent with the stock and if not what are the main errors found?
(3) Is documentation always filled out properly and if not what are the main errors found?
(4) How are discrepancies between what is actually received and what is recorded on the form identified?
(5) How are these discrepancies rectified?

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(6) Whose responsibility is it to undertake reconciliations between the records of the sending & receiving divisions?

(7) Who actually carries out these reconciliations and how often are they performed?

(8) Who are the top three compliant inspectors for sending in the correct documentation and who are the three least compliant inspectors for sending incorrect documentation?

(9) Who is responsible for the unloading of trains/trucks that come into Portlaoise?

(10) What recording procedures are there for unloading trains/trucks?

(11) Could you estimate how much of the transfers received take place at night or at weekends?

(12) Do you have any suggestions on how to improve stock transfers into Portlaoise?

(13) If you feel that the above questions do not address all areas which you feel should be brought to our attention please give us your comments.

(1A.iii) Receipts From Waterford

(1) What are the recording procedures for the receipt of stock from Waterford?

(2) What security is in place in Waterford for Iarnród Éireann stock?

(3) Is stock counted periodically in Waterford and by whom?

(4) If you feel that the above questions do not address all areas which you feel should be brought to our attention please give us your comments.

(1B) Movements From Portlaoise

(1B.i) Movements to Line side

(1) Is a fax or email always received from PW Inspectors prior to stock being released from Portlaoise?

(2) Who checks the dispatch docket against what is actually being dispatched?

(3) Do you have any suggestions of how to improve stock transfers from Portlaoise?

(4) If you feel that the above questions do not address all areas which you feel should be brought to our attention please give us your comments.

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(1B.ii) Sales

- (1) What is currently being sold from Portlaoise and from line side?
- (2) Is there a predetermined sales price for every item sold, who determines the price and how often is this reviewed?
- (3) Who approves all sales?
- (4) Who reviews all sales made in a period?
- (5) What controls are in place to ensure that all sales made are recorded and are recorded correctly?
- (6) If you feel that the above questions do not address all areas which you feel should be brought to our attention please give us your comments.

(1C) Security of Premises at Portlaoise Sleeper Depot

- (1) How many entrances are there to the Portlaoise Sleeper Depot and how many are open during the working day?
- (2) Who are the key holders of the Depot Gates?
- (3) What are the security guards duties (i.e. does he check cars/vans leaving the depot) and what hours does he work?
- (4) Is there 24 hour security on the entire plant?
- (5) Does the hiring of security at Portlaoise go through the procurement process?
- (6) Do you have any suggestions for improving security at Portlaoise?
- (7) If you feel that the above questions do not address all areas which you feel should be brought to our attention please give us your comments.

2. Line side

(2.1) Transfers to/from divisions

- (1) Who decides on what stock is to be transferred to Portlaoise or to another division?
- (2) Who decides on what stock is to be requested from Portlaoise or another division?
- (3) If you feel that the above questions do not address all areas which you feel should be brought to our attention please give us your comments.

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(2.2) Materials taken up

(1) Who decides what materials are to be taken up?

(2) How are the materials taken up measured and is this reconciled to what has been already approved?

(3) Who carries out this reconciliation and how are discrepancies followed up?

(4) What controls are in place to ensure that all materials taken up are properly accounted for?

(5) What happens when all pre-numbered forms are not returned to the Division office?

(6) Who updates the database with the information on the forms?

(7) What checks are done on the accuracy of the database?

(8) How is the database reconciled to what is on SAP?

(9) What follow up procedures are performed when omissions/errors are reported to the Divisional Engineer?

(10) If you feel that the above questions do not address all areas which you feel should be brought to our attention please give us your comments.

(2.3) Materials Used

(1) Who decides on what materials are to be used?

(2) How are materials used quantified and how is this reconciled to what has been approved to be used?

(3) What follow up is done on discrepancies identified?

(4) What controls are in place to ensure that all materials used have been accounted for?

(5) What happens when all pre-numbered forms are not returned to the Division office?

(6) Who updates the database with the information on the forms?

(7) What checks are done on the accuracy of the database?

(8) How is the database reconciled to what is on SAP?

(9) If you feel that the above questions do not address all areas which you feel should be brought to our attention please give us your comments.

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(3) Stock takes

- (1) How much notice is given to PW Inspectors in advance of stock takes?
- (2) Do PW Inspectors have details beforehand of what stock should be in their location?
- (3) Is scrap actually counted or is an estimate made of quantity?
- (4) What controls are in place to ensure that all stock in a particular location is counted?
- (5) What controls are in place to ensure that items are not double-counted?
- (6) With regard to the recording of stock by location in the divisions, is all stock recorded by reference to mile post?
- (7) What checks are done on quantities recorded in SAP?
- (8) Who has access to change quantities on SAP and how are changes to stock authorised?
- What procedures are followed when discrepancies are found between quantities counted and quantities per SAP?
- (9) Who has overall responsibility for ensuring that all discrepancies are adequately followed up and explained?
- (10) Do you feel that the frequency of stock takes currently undertaken is adequate?
- (11) Would it be possible for Bay 5 in Portlaoise to be rearranged so that stock counting could take place easier?
For example could 54kg flat bottom steel be stacked in one place and 50kg flat bottom steel be stacked in another part of Bay 5?
- (13) Do you have any suggestions for how to improve stocktaking in Portlaoise?
- (14) If you feel that the above questions do not address all areas which you feel should be brought to our attention please give us your comments.

(4) Materials Reclassified

- (1) In Portlaoise and in the Divisions who decides on whether an item is new, second hand or scrap?
- (2) What is the criteria for the classification between new, second hand and old stock?
- (3) Who decides on this criteria and how is the criteria arrived at?
- (4) What is the criteria for an item to be classified as scrap?
- (5) Is a valuation always obtained by the Inspector from the Q & S, B, or ADB prior to a

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reclassification taking place?

(6) Who has access to reclassify stock on SAP?

(7) Who has overall responsibility for monitoring reclassification that has taken place?

(8) Do you have any suggestions as to how stock reclassification could be improved?

(9) If you feel that the above questions do not address all areas which you feel should be brought to our attention please give us your comments.

Training

(1) To what extent do you use SAP?

(2) Would you say you have a good knowledge of SAP?

(3) Do you feel you would benefit from more training on SAP?

(4) If you feel that the above questions do not address all areas which you feel should be brought to our attention please give us your comments.

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QUESTIONNAIRE II SENT NOVEMBER 2007

QUESTIONNAIRE II

Questionnaire II:

Questionnaire II was sent to Portlaoise Depot Senior Management, Divisional Engineers, Divisional Accountants and Permanent Way Inspectors. All questionnaires sent stated that all answers treated as strictly confidential.

Name:
(A) Stock Transfers
(1) Who decides what stock is to be transferred from your division to another division and how is this authorised?
(2) Do you always give advance notice of stock being sent to another division?
(3) What forms do you send when stock is being transferred?
(4) Are there any instances where you do not send forms with the stock being transferred?
(5) How do you know what codes should be written on the forms?
(6) Do you always send a copy of the form to the Divisional Accountant?
(7) Who is responsible for the loading of trains/trucks?
(8) Who checks that what is recorded on the forms matches what has physically been sent?
(9) Who decides what stock is to be requested from Portlaoise and how is this authorised?
(10) What are the procedures for requesting stock from Portlaoise?
(11) Who checks the delivery docket against what is physically received and how are discrepancies followed up?
(12) If you feel that the above questions do not address all areas which you feel should be brought to our attention, please give us your comments.
(B) Materials Used
(1) Who decides on what materials are to be used in the line?
(2) What forms are used to record materials used?
(3) How are materials used calculated and how is this reconciled to what has been approved to be used?

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(4)What controls are in place to ensure that all materials used have been accounted for?
(5)Who decides and approves what materials are to be taken out of the ground?
(6)Who measures what has been taken out of the ground?
(7)What reconciliation is done between what has been taken out of the ground and what has been approved to be taken out?
(8)What controls are in place to ensure that all materials taken out of the ground are properly accounted for?
(9) If you feel that that the above questions do not address all areas which you feel should be brought to our attention, please give us your comments
(C) Sales
(1)What sales are made from your PW?
(2)Is there a predetermined sales price for every item sold and who determines this price?
(3)How often are prices reviewed?
(4)Who approves all sales from your PW?
(5)Who reviews all sales from your PW in a period?
(6)What controls are in place to ensure that all sales made are recorded and recorded correctly?
(7) If you feel that that the above questions do not address all areas which you feel should be brought to our attention, please give us your comments
(D) Line side Security & Stocktaking
(1)What security is there over line side stock?
(2)How much notice do you get in advance of stock takes?
(3)In advance of a stock take, do you have details of what stock should be in your location?
(4)Do you count scrap as part of your stock take?
(5)How do you ensure that all stock in your location is counted?
(6)How do you ensure that stock is not double-counted during the stock take?
(7)Do you record location of stock by reference to mile post?

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QUESTIONNAIRE II SENT NOVEMBER 2007

(8) Do you record quantities of stock in SAP?
(9) Do you have access to change quantities in SAP?
(10) What follow-up procedures do you follow when you identify discrepancies between what is actually counted and what is recorded on SAP?
(11) Do you feel that the frequency of stock takes currently undertaken is adequate?
(12) How do you decide on whether an item is new, second hand or scrap?
(13) If you are unsure as to classification what procedures do you follow?
(14) Who authorises any reclassifications?
(14) If you feel that that the above questions do not address all areas which you feel should be brought to our attention, please give us your comments
(E) Training/Familiarisation
(1) To what extent do you use SAP?
(2) Did you ever receive training in SAP?
(3) Do you have a good knowledge of SAP?
(4) Would you feel you would benefit from more training in SAP?
(5) Do you have a copy of Iarnród Éireann "Policies and Procedures for The Control of Infrastructure Linestocks" or would you like to receive a copy?
(6) If you feel that that the above questions do not address all areas which you feel should be brought to our attention, please give us your comments

APPENDIX 7
PROCUREMENT & MATERIAL DEPARTMENT
BUSINESS PLAN 2006-2009

Procurement & Materials Department

Business Plan

2006-2009

CONTENTS

1. Background
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1. BACKGROUND

This Business Plan has been developed by the management team in the Procurement & Materials Department. It seeks to set the agenda and broad targets for the period 2006-2009 and to align our objectives with corporate plans and the plans of our main customers.

2. COMPANY OBJECTIVES

At a corporate level the focus for the Period 2006-2009 will continue to be on safety, customer services and sound financial performance. Service improvements are planned for all services. Such improvements will include:

- modern, safe and clean rolling stock on all routes;
- implementation of a clock-face timetable with hourly services on primary intercity routes and 2-hourly services on others;
- on-line ticket sales with seat reservations;
- doubling of the capacity on commuter routes;
- frequent "turn-up and travel" services on commuter routes
- reduced journey times
- higher capacity trains (8 car running on DART etc)
- modern station facilities with increased parking
- commuter services in Cork & Limerick
- real time customer information systems
- ticket vending machines
- improved hygiene and cleanliness on trains and in stations
- improved punctuality & reliability

A fundamental key corporate objective is to ensure that the company produces a positive financial outturn on a consistent basis year on year. This will require a significant reduction in the cost base, reshaping the Freight business, increased revenue growth and increased state subvention.

3. CHANGES IMPACTING ON PROCUREMENT AND MATERIALS

At a time of such developments and service improvements within IE its essential that the procurement and materials functions meet the challenges presented by these changes and adapts to the new requirements.

This is a critical time for rolling stock in IE and there will be significant changes to the make up of the fleets over the period of this plan. Total fleet size will increase, and the average age

will fall significantly. In addition the type of rolling stock will change from locomotive hauled services towards DMUs for many suburban and Intercity routes. As well as the investment in rolling stock there will continue to be significant change to maintenance operations with night time working and the opening of a dedicated Intercity Depot at Portlaoise in 2007. It is expected and assumed that the maintenance strategies adopted for each of the fleets will continue to develop towards Line Replacement Units (LRUs). This will impact on what and how we purchase and hold in stock.

On the "Services" side there will also be significant changes during the life of the plan. There has been a contraction in the level of freight business over the last two years with the withdrawal from the liner business and the pending withdrawal from the Guinness business. Following on from the outsourcing of catering services on the Enterprise service it is expected that the rest of Intercity routes will also be outsourced. This will reduce the requirements for tenders and contracts for goods and services in these areas.

The introduction of new fleets and additional services along with changes to the maintenance operations will require changes to the fuel distribution services provided.

4. MISSION & VISION

The Procurement & Materials Department's Mission Statement was reviewed and updated in April 2006.

Our Mission

"We are committed to continually improving our procurement and materials services, supporting our customers in achieving their objectives, and generating competitive advantage for Iarnród Éireann."

Our Vision

We will pursue our mission relentlessly so that we will continue to be our customers first choice in the provision of Procurement and Materials Management services as proven by our commitment to World Class Procurement, Materials Management and Customer Services practices.

We aim to achieve this by:

- a. Meeting our customers Material and Services requirements in partnership with our customers***

Key Indicators

- 99% material availability for forecasted and critical items
- 95% material availability for unplanned items

- 99% accuracy in central warehouse
- Benchmarking of service levels with comparable organisations and industries

b. Consistently providing excellent customer relations

Key Indicators

- Conduct annual customer satisfaction surveys and measure performance
- Ensure effective two way communications with customers
- Ensure customers understand our mutual roles and functions is obtaining maximum benefit from our services
- Meeting or exceeding our customers expectations

c. Exploiting the benefits of modern systems, procedures and processes.

Key Indicators

- Use SAP to its full potential
- Seek accreditation to ISO or similar quality standard
- Ensure operating procedures are applied consistently and updated when required
- Explore new and emerging technologies and implement proven solutions

d. Encouraging and facilitating highly motivated staff and good staff relations

Key Indicators

- Encourage open and frank communications
- Retention of staff
- Attract high calibre staff to department
- Personal development of staff is expected and encouraged
- Encouragement of training and upskilling to maintain best practice procurement and materials management approach
- Fair remuneration and rewards systems
- Address and resolve IR issues in a timely manner

e. Providing dynamic leadership & organisation in a team-working environment

Key Indicators

- Maintain a flexible organisational structure to meet changing business needs
- Effective team working encouraged and promoted
- Highly motivated, competent management team leading by example
- Professional management team with un-questionable integrity

- An approachable management team capable of motivating, coaching and developing their staff

f. Ensuring safety is a necessary pre-requisite, governing all activities

Key Indicators

- Implementing procedures to ensure compliance with corporate safety requirements as they apply to suppliers and contractors
- Recognising safety as an essential pre-requisite governing all our business activities
- Ensuring a safe working environment and compliance with safety procedures and requirements

g. Delivering competitive financial performance for Iarnród Éireann

Key Indicators

- Sound competitive commercial contracts
- Value for money
- Improved product and services quality/performance
- Reduced costs
- Improved stock turnover

h. Maintaining the highest standards of corporate governance and control in all our business activities

Key Indicators

- Ensuring implementation of appropriate controls in the procurement to payables cycle
- Ensuring high levels of compliance with company and EU Procurement Procedures
- Regular monitoring of compliance with approved processes and procedures
- Ensuring controls are effective in safeguarding company assets

Annual Action Plans will be set against this vision and tracked on a regular basis.

Critical Success Factors(for implementing Mission & Vision)

INTERNAL

- Management competency and capability.
- Effective Teamworking
- Recruit new/replacement staff with appropriate skills
- Retention of staff
- Constructive, creative employee involvement.
- Persistence with action planning and teamworking processes
- Effectively managing departmental projects
- Support from senior management

EXTERNAL

Effective and timely support in respect of the following key service support areas:

- Customers
- Legal
- Technical
- Insurance
- IT
- HR
- Logistics Providers
- Key Vendors
- Finance / Accounts Payable
- Training

5. PROCUREMENT

Purchasing Stock Materials

Approximately 23,000 materials are held in the central warehouse. For moving stock materials, tenders are invited on a regular basis and contracts are awarded with, where possible, fixed price agreements (typically every 3 years).

Spares for Rolling Stock Fleet

Materials and services are purchased to support the maintenance of the rolling stock fleet. The fleet varies considerably by age and vehicle type and includes

- Locomotives (107 in fleet)
- Intercity locomotive hauled coaches – 8 different types- varying in age from 40 years + for the Cravens to new vehicles such as the Enterprise (14 in fleet)
- Suburban diesel multiple units (Arrows) (174 in fleet)
- Suburban electric multiple units (Darts) (144 in fleet)
- Freight wagons (1304 in fleet)

As these vehicles were built to IE's specific requirements, the availability of spare parts presents an ongoing challenge particularly in relation to the older vehicles, some of which are over 30 years old and have "obsolete parts". In many cases the components are not in current production and must be manufactured in small uneconomic production runs.

We have commenced the process of building strategic relationships with the major rolling stock suppliers, giving them early visibility of our material requirements and forecasts and putting in place long term arrangements with reduced lead times and improved prices. Over the period of the Business Plan we intend to implement strategic supply arrangements with all the rolling stock manufacturers and major sub-assembly suppliers. This will deliver a more efficient and effective process and provide for improved material availability.

Other stock materials

In addition to spares to support the rolling stock fleet, a range of general materials are stocked for use by a range of customer departments within Iarnród Éireann and the holding company. These materials include personal protective equipment (PPE), general cleaning materials, lubricants, printed stationery, hardware, signalling and electrical (SET) etc.

Over the period of the Business Plan it is intended to put in place framework agreements and call off contracts for the majority of moving materials. Where possible we will put in place agreements with suppliers which will allow us reduce or eliminate the need to hold stock, while ensuring an adequate supply of materials to meet the day to day requirements of our customers. This in some cases may take the form of a "kan-ban" stock replenishment system at the point of use.

A key objective is to reduce the number and value of materials stocked.

Major factors in the reduction of the number of spares held will be:

1. The extension of the Kitting strategy
2. Increased use of LRU / Repairables concept – ie sending out complete units for repair/exchange
3. Framework agreements for direct deliveries of routine workshop consumables.
4. Elimination of "high street" materials from stock in favour of best practice local purchases policy.
5. Improved use of standardisation of components within and across fleets (in conjunction with the Technical Office)

Purchasing Non Stock Materials

The Procurement & Materials Department places contracts for a wide range of materials and services for the various departments within IE. These include:

- Road haulage services
- New rolling stock
- Replacement road freight vehicles
- PPE
- IT
- Office requirements
- Catering materials
- Consultancy services
- Printed stationery
- Tickets
- Security services
- Legal Services
- Financial services
- Cash-in-transit services
- Personal Protective equipment

- Uniforms
- Advertising
- Contract Cleaning - office
- Carriage cleaning
- Capital Projects etc.

We will continue to put in place long term arrangements with "industry best" suppliers at competitive rates over the life of the Business Plan. These arrangements will maintain the dual aim of delivering a high standard of service and best value for money to meet the requirements of our internal customers. This we will achieve by involving our customers in the procurement process, by valuing their contribution and by benchmarking against best in industry.

Outsourcing

It is expected that over the next three years, there will be an increased requirement for outsourcing elements of work currently carried out within IE. In some cases this will involve the increased usage of service exchange units. In other cases it will involve an external contractor providing maintenance, repair or other operational services that are currently carried out in-house. A policy decision has been made to outsource catering on intercity routes and implementation of this policy will be a significant milestone in 2006.

Where outsourcing occurs we will support our customers in implementing appropriate service level agreements and performance regimes to ensure that the services are implemented to the required standard.

Capital Purchases

Considerable expertise has been built up over the last 5 years on the acquisition of rolling stock, rolling stock refurbishment and the purchase of specialist equipment for the CME section. A number of rolling stock build projects, including the Intercity Railcars build, the refurbishment of the DART vehicles etc are in progress at present (April 2006) and these will continue to be supported from a commercial perspective by this department. The focus will be to continue to support the CME in delivering projects on time and to budget and in accordance with the contract terms.

Over the life of this plan it is expected that additional EMUs will be acquired and procurement input will be required. More emphasis will be placed on how we make available the spare

parts required to maintain any new fleets and on ensuring that the maintenance strategy and plan is made available at an early date. The policy and procedures used setting up new materials will be reviewed with the CME with a focus on "strategic" as opposed to "consumable" spares.

In addition, purchases of ticket vending machines and exit validation for the operating sections and IT for Group IT & Telecomms have featured in recent years along with procurement support for Group Property projects. We will continue to support these capital projects.

Specific Actions Procurement

	Action	Responsibility	Target Date
1	Strategic Supplier Agreements in Place for all A items	LG	2007
2	Framework Agreements in place for general materials (eliminate from stock)	LG/KS	2006
3	Agreed strategy for standardising Components on rolling stock	LG/PM/PW	2007
4	Reduction in number of spare parts stocked	LG/PW	Anually
5	Service Level Agreements for main Services contracts	LG/KS	2007
6	Outsource catering on Intercity Routes	KS	2006
7	Continued monitoring and compliance With procurement rules	PM/LG/KS	Anually

6. MRP / PLANNING

Forecasting material requirements for the rolling stock fleets is primarily carried out on the basis of historic usage – ie issues from the central warehouse. In addition, fleet managers advise of their forecasts largely on a once off annual basis.

In order to improve the accuracy of the forecast and to ensure that the right materials are available to meet the maintenance requirement of the fleets, a structured planning process with regular formal updating needs to be put in place and managed.

Inventory Control

A key core activity of the Procurement and Materials Department is the provision of material to the CME department to enable overhauls and examinations of rolling stock occur as planned.

Re-ordering material has largely been based on historical usage and, when a change in programme takes place, overstocking or shortages can be the result, as the system is slow to respond to such changes in need.

Changing the process of ordering material is essential if we are to continue to improve the supply of material in time for the production shops and depot programmes. A forward planning process is necessary to eliminate the inherent problems associated with ordering material on historic information.

Planning:

The essential requirement is to develop and implement planning / forecasting procedure on the system to provide a supply of material to workshops and depots in order to reduce re-scheduling of production and assist in meeting programmes. The procedure must have the facility to enable amendments be made to the workshop and depot programmes and cascade the amended material requirements automatically on the system. A 3 year rolling maintenance planning window is required, updated on a period or quarterly basis.

Significant inputs will be required from the CME Department in order to develop a working process. We will work with the newly appointed Materials Planning Executive and other managers in CME to implement such a process.

As part of the general budgetary process, stock-holding budgets by fleet should be set and agreed with the CME and the CME Business Unit Accountant on an annual basis, with period reporting of performance against budget.

Bills-of-Materials.

In order to move from the present arrangements to a more structured approach it will be necessary to produce Bills of Materials (BOM's) for all maintenance routines, overhauls and exams for locomotives, carriages, railcars and wagons based on safety requirements and specifications from the Technical Services section. BOM's for material with 100% usage should be linked to the planning procedure to project a 3 year rolling plan for materials. This will in turn feed into our purchasing strategy. Updating of BOM's must be carried out regularly to enable material be sourced in advance of requirements and procedures will be developed, agreed and implemented to effect this during the life of the Plan.

During 2006 we will work with the CME, the Technical Office, the Works Manager, the Materials Planning Executive and the Fleet Managers to agree and implement a structured planning process to support the delivery of a more effective materials service to meet the fleet maintenance requirements.

Inventory Levels.

The use of a structured planning process coupled with the extension of storage locations to all workshops and depots will result in a more consistently high level of material availability, while enabling the relative investment in inventory to be reduced. It will also minimise the occurrences of overstocking and stockouts with a more balanced safety stock level.

An effective planning process for material requirements will enable firm contracts / agreements for up to 3 years be placed with suppliers. It will lead to reduced lead times, increased scheduled deliveries with a fixed 2/3 month view of requirements and provide the facility to amend forward requirements based on production changes/output. It will allow increased use call-off orders and improve the supply of material through longer term agreements.

Shortages

In order to minimise the impact that shortages can have on fleet availability and on fleet maintenance plans, a review of the material classifications will be carried out to separately identify those vital few materials which are 'show-stoppers.' These will be the subject of special attention from a purchasing, stocking and inventory control perspective and will be

given priority attention at all times. An early alert process will be developed to give timely warning of potential shortages of these components.

New Rolling Stock Spares.

Planning the stock requirements to meet the maintenance requirements of new fleets has a significant impact on stock-holding budgets, material availability and future obsolescence provision. Revised procedures and guidelines for setting up new parts for new fleets need to be developed and implemented.

A critical examination of all new rolling stock material requirements is necessary to maintain Strategic (just-in-case) Stocks at the correct levels.

The possibility of holding and managing consignment stocks to reduce inventory levels and costs for new rolling stock will be considered and implemented where appropriate. This will be extended to existing stocks where possible.

A revised process for agreeing and setting up parts for new fleets will be developed with the CME in 2006.

Fleet Exit Strategy

During the life of this plan it is envisaged that the Cravens, Mark 2 and possibly some Mark 3 carriages will be retired from the IE fleet. An agreed exit strategy from a spare parts perspective will be agreed with the CME in 2006 with the objective of minimising IE's exposure to obsolete materials. The obsolete fleets will be disposed of in accordance with the CIE Group's Asset Disposal Procedures.

Obsolescence

In order to minimise IE's financial exposure due to holding slow moving materials, a review of the obsolescence provision will be carried out in 2006. This will include:

- Review of Quarterly Obsolescence reports
- Benchmarking the obsolescence formula with other railways
- Consideration of strategic spares from an obsolescence perspective

Specific Actions MRP / Planning

	Action	Responsibility	Target Date
1	Maintenance strategies available for each fleet	LG/PW/CME/PM	2007
2	New 3 year rolling maintenance planning process in place	PW/FR/PM/LG/CME	2007
3	Agreed Stock Holding Budgets in Place for each fleet	PM/PW?CME	2007
4	Bills of Materials available for all Maintenance routines	PW/CME/LG	2007
5	Extend Storage Locations to all Workshops and Depots	PW/CME	2007
6	Review of A Class items & classifications generally	PW/LG/CME	2006
7	99% material availability for forecasted and critical items	PW/LG	2008
8	95% material availability for unplanned items	PW/LG	2008
9	Benchmarking of service levels	PW	2007
10	Develop & agree new part set up Process with CME	PM/LG/PW/CME	2006
11	Agree fleet exit strategy with CME To minimise financial exposure	PW/CME	2006
12	Set objective of zero obsolescence and develop processes to achieve this	PW/PM/CME	2006
13	Benchmark IE approach on obsolescence with at least 2 comparable railways	PW/PM	2007
14	Develop and implement proposal For "strategic spares"	PW/LG, PM	2006

15	Review obsolescence formula	PW/PM/CFO/CME	2006
16	Continuous improvement on stock turn ratio	PW	anually

7. WAREHOUSING

Central Stores

Approximately 23,000+ spare parts are held in the central warehouse with a total stock value of £24m. The majority of these are held to support the maintenance and casualty requirements of the various rolling stock fleets operated by Iarnród Éireann. In 2004 following the opening of the Drogheda Depot the majority of DMU materials were transferred to the site. It is expected that similar arrangements will be put in place for the proposed Intercity Railcar Depot in Portlaoise in 2007.

Approximately 25% of these parts move in a given year with approximately 50% moving over a 4 year period. Consequently there is a high level of stock obsolescence.

Materials are issued to user departments on a daily basis using electronic requisitions. The MRP functionality of SAP is used to control stock levels.

Storage locations

Considerable levels of stock are held at various locations in CME outside of the central warehouse. The DMU Depot at Drogheda and the Intercity Depot at Portlaoise are the largest of these and these will be managed on the SAP system in a similar manner to the stock held in the central stores with the same levels of control. Reporting will be developed to ensure that the same level of management information is available whether the material is held at Drogheda, Portlaoise or the central stores. In 2006 a procedure will be implemented whereby, as a minimum, material availability is measured and reported upon in the period management reports.

A number of other storage locations are now up on the SAP system. These include:

Lifting Shop

Motive Power

Carriage Shop
 Fairview
 Limerick wagon
 Cork

A programme of cycle counting by local staff will be introduced in 2006 with annual and occasional independent checks by Procurement & Materials staff. The frequency of count and the subsequent detailed report (with recommendations) will be issued to the CME by the Materials Manager. The accuracy level achieved will be included in the periodic Materials Report to the CME.

The remaining material storage locations will be brought on to the SAP system during 2006 and 2007 including Running Shed, Heuston Valeting and (if required) Connolly Valeting.

It will be necessary to reallocate resources to stock counting to ensure that the cycle counting requirements are met and a plan to implement this will be drawn up in 2006.

Specific Actions Warehouse / Storage Locations

	Action	Responsibility	Target Date
1	All storage locations on SAP; Running Shed, Heuston, Connolly	PW/CME	2007
2	Develop & implement cyclecounting policy & process for storage locations	PW/CME/PM	2006
3	Allocate additional resource to cycle counting	PW/PM	2006
4	Carry out Bar Coding study	FR/PW	2007
5	99% accuracy	PW	2008

8. FUEL

Fuel Storage & Distribution

Fuel distribution is currently carried out by rail and road. Distribution by rail is becoming increasingly unreliable and uncertain following the cessation of the liner trains and the loss of the Guinness business. In addition, the development of Horgan's Quay in Cork will require a change in distribution in the South.

In 2006 distribution in Dublin from Alexander Road will be outsourced and in 2007 new tanker units will be provided by the external contractor.

In order to meet the growing capacity requirements of distribution from Alexander Road it is necessary to invest in new filling equipment to increase the filling rate and to improve safety by eliminating the need for top loading. A business case for CAPEX to upgrade the equipment will be made in 2006.

Environmental and regulatory requirements will require additional CAPEX in order to comply with the EU Directive on the Control of Major Accident Hazards (SEVESO). And there is a requirement to replace the existing office and staff facility at Alex Rd.

At this time (April 2006) pilot projects are planned by each of the operating companies to consider the use of alternatives to 100% diesel to power their vehicles. It is unclear what impact this will have on fuel requirements during the life of the plan. Developments will be closely monitored to ensure that there is a planned approach to the introduction of alternatives

Closer working relationships are required with our customers in relation to the fuel business in order to better understand their needs and any pending changes to their projected volume requirements. Regular review meetings will be held with each of the operating companies to update them on changes to the services being offered and to keep up to date with their changing requirements. We will be seeking a formal forecast of their requirements prior to agreeing the fuel budget.

Specific Actions Fuel

	Action	Responsibility	Target Date
1	Outsource fuel distribution from Dublin	PW/PM/KS	2006
2	Review issue & distribution controls	PW/PM	2006
3	Strategy to cater for Cork & South	PM/PW	2007
4	Strategy to comply with SEVESO	PM/PW	2006
5	Upgrade equipment & facilities in Alex Rd	PM/PW/CFO	2007
6	Support introduction of biodiesel	PW/PM/CME	Ongoing
7	Strategy for Reserves	PM/PW	2006

9. PROCUREMENT PROCESS

Systems

We will continue to seek to maximise the business benefits of the SAP system. This will involve producing regular and timely reports to assist in the management of the purchasing, inventory control, fuel and warehousing functions. In addition assistance will be provided to remote users in the best use of the system.

We will continue to evaluate such the use of web based technologies to automate elements of the purchasing / payables cycle. We will further develop and extend the use of SAP catalogues to manage routine non-stock materials and services.

Procedures

Considerable progress has been made in the last two years in developing and documenting detailed procedures and work instructions in respect of the main processes in the department. These need to be updated on an on-going basis. During the life of the plan a series of process audits will be carried out to ensure that the procedures are being followed and that they reflect our ongoing requirements.

A key objective here is to obtain ISO certification of our internal procedures within 3 years.

Process Audits

A number of process audits were carried out in 2005. These included the fuel process nationwide along with a review of Depot Orders and a number of Tender Files. The purpose of the process audits is to identify weaknesses in control and non-compliances with procedures. The recommendations and follow on action plans will seek to improve the processes and strengthen the control environment. We will extend the scope of these process audits to include the New Works and Infrastructure Divisions.

The audits will be formally reported upon and recommendations followed up in a systematic fashion with the relevant responsible managers. In 2006 the fuel process will again be audited to measure progress against the action plan agreed in 2005.

Benchmarking

We will continue to benchmark our key performance indicators (KPIs) against best industry standards both within the railway world and outside it. During the life of this plan we will, as a minimum seek to benchmark the following:

- Stock turnover
- Obsolescence provision
- Stock values by fleet size

Benchmarking will enable us to identify what the better companies are achieving and what the key factors are in producing their results. This will enable us to set challenging but realistic targets and work towards achieving them.

Specific Actions Procurement Process

	Action	Responsibility	Target Date
1	Support implementation of new Direct entry fuel process	FR/PM/PW	2007
2	Audit of P&M Dept Procedures	FR/PM	2006
3	Update of P&M Procedures	FR	2007
4	ISO or similar accreditation	FR	2008
5	Rolling annual process audit plan	FR	Anually
6	Benchmark of <ul style="list-style-type: none">• Stock turns• Obsolesence Provision• Stock value by fleet size	PM/PW/FR/LG	2007

10. PEOPLE

The organisational structure of the Procurement and Materials Department continues to develop and evolve to reflect the emphasis on improved service delivery, and value for money while at the same time strengthening the focus on financial controls and accountability.

As of April 2006 there are 41 staff employed full time in the Procurement & Materials Department. The focus going forward will be to improve the overall level of competency and to optimise the efficiency of our operations overall. Annual training plans will be developed and implemented to ensure that staff are equipped with the skills and knowledge to carry out their work.

A review of the structure of the department will be carried out in 2006 with a view to better meeting the requirements of a changing company. On the Inventory side a teamworking initiative will be launched to help deliver a better service to the customer and to improve the working environment. We will ensure that our procurement structure continues to meet the requirements of our main customers.

The corporate headcount targets included in the Financial Plans will be adhered to. With the opening of the Portlaoise Depot in 2007 there will be a reduction in the requirement for warehouse staff in the central stores to look after Intercity requirements. Staff recruited for the depot will report to the CME.

Specific Actions People

	Action	Responsibility	Target Date
1	Review Training plan to ensure it Meets requirements	FR/PM	anually
2	Review Structure of P&M Dept	PM	2006
3	Meet corporate headcount targets	PM	anually
4	Implement team working initiative in Inventory section	PW	2006
5	Ensure staff numbers reflect the Transfer of stock top Portlaoise Depot	PM/PW	2007
6	Carry out annual customer Satisfaction surveys & action plans	PM	anually

Review

This Business Plan will be reviewed and if necessary: will be reviewed on an annual basis. Actions Plans will reflect the requirements outlined in this plan.

First review June 2007.

END

June 2006

APPENDIX 8

PROCUREMENT MODEL GRAPH

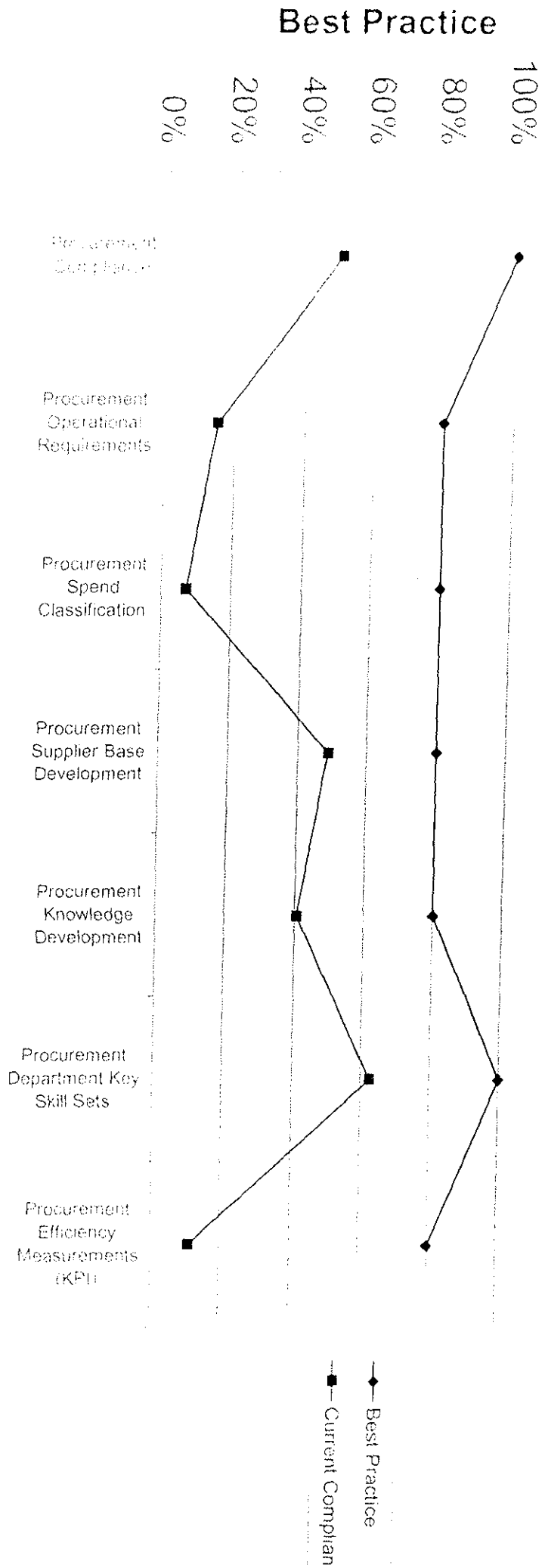
Total Consolidated

Best Practice

1 Procurement Compliance	100%
2 Procurement Operational Requirements	80%
3 Procurement Spend Classification	80%
4 Procurement Supplier Base Development	80%
5 Procurement Knowledge Development	80%
6 Procurement Department Key Skill Sets	100%
7 Procurement Efficiency Measurements (KPI)	80%

Current Compliance	No	Total	Yes	No
50%	50%	48	24	24
15%	85%	83	12	71
7%	93%	56	4	52
49%	51%	72	35	37
40%	60%	77	32	45
63%	37%	100	63	37
11%	89%	72	8	64

IE Procurement Model



Risks Identified		High
6. Purchase to Pay Process		
6.1	Requirement for Goods or Services	3
6.2	Sourcing of Suppliers	3
6.3	Creation of Requisition / Release	3
6.4	Release of Requisition	3
6.5	Release of Purchase Order	3
6.6	Send Final mail PO	
6.7	Receipt of Goods or Services	3
6.8	Stock Control	
6.9	Intra Plant Transfer	
6.10	Receipt of Supplier Invoices	
6.11	Matching of Invoice and PO	3
6.12	Payment of Invoice	

Medium

Low

1

2

2

2

2

APPENDIX 9

COMPARISON OF PROCUREMENT MODELS

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IMSN PROCUREMENT SYSTEM REVIEW

COMPARISON OF CURRENT IMSN PROCUREMENT MODEL TO RECOMMENDED BEST PRACTICE

<u>CURRENT MODEL</u>	<u>BEST PRACTICE MODEL</u>
Model	Model
No clear procurement model in operation best described as a mix of both Centralised and Decentralised Procurement.	Centre-Led Procurement Model for Irish Rail
Organisation	Organisation
Insufficient coordination between companies, divisions and business units with regard to sourcing of suppliers	Sourcing of suppliers coordinated across companies, divisions, business units.
Insufficient leverage of spending across companies, divisions and business units.	Spending leveraged across companies, divisions, business units.
Procurement reports to Divisional Management	Procurement reports to senior supply chain executives
Process	Process
Standardised procurement process and policies does exist within divisions or business units.	Standardised procurement process and policies across the companies, divisions, business units.
Different standard of procurement compliance, efficiency and effectiveness exist across the business.	Maintain process compliance, efficiency and effectiveness consistency across the business.
Poor Procurement practices and unskilled resources exist within key functional areas of procurement.	Best practices and skilled resources shared across sites.
Knowledge	Knowledge
No knowledge of Procurement strategy or operational plan exists within the procurement organisation.	Procurement strategy and operational knowledge formulated and communicated to relevant stakeholders.

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 IMSN PROCUREMENT SYSTEM REVIEW
 COMPARISON OF CURRENT IMSN PROCUREMENT MODEL TO RECOMMENDED BEST PRACTICE

CURRENT MODEL**Knowledge cont'd**

Procurement skills, product and business requirement expertise are lower than what would be expected for this size organisation.

Knowledge in the form of established business standard procurement reports don't exist – SAP knowledge in reporting is poor.

Procurement compliance knowledge within the procurement line is weak due to no formal training on introduction or no continuous skills enhancement program in place.

Technology

Procurement Technology Strategy does not exist

Procurement program for continuous review and utilization of existing in-house technologies (SAP) to drive efficiencies and visibility of spend does not exist.

Procurement does not embrace technology as a resource to assist the procurement process.

SAP is currently underutilized

BEST PRACTICE MODEL**Knowledge cont'd**

Procurement skills, product and business requirement expertise managed and coordinated across businesses and sites.

Knowledge in the form of established business standard procurement reports being available to provide visibility into spending, compliance and performance. These reports would be aggregated at different levels.

Technology

Procurement Technology Strategy to promote "e" BTB supplier and user integration. This would allow for the elimination of paper from the procurement process and the capturing of data at source.

Procurement program for continuous review and utilization of existing in-house technologies (SAP) to drive efficiencies and visibility of spend.

Technology decisions and deployment coordinated across all sites.

Technology deployment and usage coordinated across all sites.

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IMSN PROCUREMENT SYSTEM REVIEW

COMPARISON OF CURRENT IMSN PROCUREMENT MODEL TO RECOMMENDED BEST PRACTICE

CURRENT MODEL

Performance

No Standard metrics in use which are common across the business and which are supported centrally

Cost, compliance, and performance are not consistent across the enterprise

BEST PRACTICE MODEL

Performance

Standard metrics used enterprise-wide, but supported centrally

Metrics and incentives shared by procurement, functions and business.

Cost, compliance, and performance consistent across the enterprise

Procurement monitoring through ongoing audit process.

APPENDIX 10



BEST PRACTICE PROCUREMENT MODEL

APPROACH

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BEST PRACTICE PROCUREMENT MODEL

**BEST PRACTICE PROCUREMENT MODEL RECOMMENDATION FOR
INFRASTRUCTURE MAINTENANCE, NEW WORKS AND SE&T BUSINESS
UNITS OF IARNRÓD ÉIREANN**

With pressures such as Government, EU and other legal compliance requirements, an efficient and best practice model of procurement should be at the forefront of Iarnród Éireann's corporate strategy.

Recent internal and external reviews have identified a weak procurement organisational and operational structure within Infrastructure Maintenance, SE&T and New Works. These reviews highlighted the high variation of procurement skill levels within key procurement activities and limited reporting capabilities present.

Having carried out a review of the current procurement process within Infrastructure Maintenance, New Works and SE&T, we would recommend a process of evaluation of the current procurement model with the objective of designing, implementing and maintaining a best practice procurement model. This best practice procurement model would insure compliance and achieve efficiencies and effectiveness within the procurement process. This improved model would enhance the procurement process both within the business and its extended supply-chain.

Our recommendations are based on our review of the current procurement model specifically under the area of our review and we recommend that the Board consider a Centre-Led Procurement Model as an alternative procurement model to adopt. A centre-led procurement model, together with a greater utilisation of SAP and other "e" Business-to-Business procurement technologies, would allow Iarnród Éireann achieve greater visibility into spend, control and compliance within the procurement process.

An advantage cited by "e" B2B procurement technologies is the move away from paper-based plant hire time sheets, requisition forms, emails and faxes and towards web-based electronic standardised forms. These forms can be set up on a web based interface, the supplier completes the forms which captures compulsory procurement

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BEST PRACTICE PROCUREMENT MODEL

data at source. This would then in turn integrate with the current SAP application. This would allow for real-time reporting and visibility on areas of compliance, performance and other KPI metrics.

Other possible developments within this process is the cataloguing of a plant hire and contracted labour database, which would allow for suppliers to price and tender for contracts with Iarnród Éireann. The end result would be the elimination of paper based requests which are subject to being returned inaccurately completed. Another advantage would be improved integration with suppliers / requisitioners and greater reporting capabilities. ‘Ariba’ and other “e” procurement systems could add considerable value to Iarnród Éireann’s current procurement process in Infrastructure Maintenance, SE&T and New Works.

It is recommended that Iarnród Éireann approach the above change with external consultancy assistance, subject to normal public procurement criteria. The project would involve a process mapping of the current ‘as-is’ model, identifying the ‘to-be best practice’ model and the management of the change management element in the move between models.

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BEST PRACTICE PROCUREMENT MODEL

A Centre-Led Procurement Model would have the following characteristics

CENTRE-LED PROCUREMENT MODEL	
Organisation	<ul style="list-style-type: none"> •Sourcing coordinated across business units •Spending leveraged across companies (CIE Group Companies), divisions and business units where practical •Procurement reports to senior supply chain / budget holders, department and divisional management
Process	<ul style="list-style-type: none"> •Standardised processes and policies tailored and executed at local level •Process compliance, efficiency and effectiveness consistent across the enterprise •Resources and best practices shared across sites
Knowledge	<ul style="list-style-type: none"> •Skills, category expertise coordinated across businesses and sites •Visibility into spending, compliance and performance at company and divisional levels
Technology	<ul style="list-style-type: none"> •Technology decisions and deployment coordinated across sites •Technology deployment and usage coordinated across sites
Performance	<ul style="list-style-type: none"> •Standard metrics used company-wide, but support for local variances •Metrics and incentives shared by procurement, functions and businesses •Cost, compliance and performance consistent across the company

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BEST PRACTICE PROCUREMENT MODEL

REVIEW THE FOLLOWING PROCESS WHEN IDENTIFYING NEW PROCUREMENT MODEL	
Organisation	<ul style="list-style-type: none"> • Current procurement organisation structure • How sourcing decisions are made • Where procurement activity is carried out • How spending is leveraged across the business • What procurement reports exist • Who runs these reports
Process	<ul style="list-style-type: none"> • Standardisation of procurement processes • Establishing procurement processes efficiency and effectiveness. KPIs • Sharing of resources or best practice across sites
Knowledge	<ul style="list-style-type: none"> • Skills and commodity expertise • Market, sourcing, negotiations, SAP, other technology and supply chain knowledge • Reports development which would highlight visibility into spending, compliances and performance (KPI)
Technology	<ul style="list-style-type: none"> • Utilization of existing and new technology within the procurement process and throughout the extended supply chain • Use electronic standard forms for request for plant or labour hire rather than paper based forms. Identify key compulsory data required for capture at source in this process.
Performance	<ul style="list-style-type: none"> • Establish metrics (KPI) for use in cost, compliances, performance and trend analysis • Supplier performance and quality metrics
Business Requirements	<ul style="list-style-type: none"> • Expenditure type and volume • Business needs and constraints • Regularity timelines in contrast to operational timelines • Locations limitations on supplier selection and pricing • Legal and other compliances • Safety needs • Expenditure budget • Procurement planning requirements
Supplier Base Organisation	<ul style="list-style-type: none"> • Market review • Pricing structure review • Contracts review • Sourcing review • Supplier integration review • Spend analysis

* note other areas of review would also be required as part of determining a rev

IARNRÓD ÉIREANN – PROCUREMENT & INTERNAL CONTROL INVESTIGATION
Interim Report to the Steering Group Committee – 31st January 2008
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APPENDIX 11

STOCK VALUATION REPORT

CIE STOCK VALUATION as at 13th November 2007

SAP	Location	%	Value
R002	Construction Unit	0.9%	219,137.06
R015	Arklow Infrastructure	0.2%	58,819.69
R020	Athenry Infrastructure	1.9%	491,678.81
R025	Athlone Infrastructure	2.1%	539,691.30
R070	Ballymote Infrastructure	1.6%	408,634.59
R115	Cahir Infrastructure	2.5%	648,576.08
R125	Carlow Infrastructure	0.6%	159,741.41
R145	Castlebar Infrastructure	0.6%	160,298.59
R165	Claremorris Infrastructure	3.0%	774,872.41
R195	Connolly Infrastructure	5.3% **	1,364,071.87
R215	Cork Penrose Quay Infra	0.8%	194,281.83
R230	Dundalk Infrastructure	1.1%	276,054.07
R235	Enfield Infrastructure	0.9%	234,994.48
R240	Ennis Infrastructure	2.0%	501,973.79
R245	Enniscorthy Infrastructure	3.4%	870,433.80
R285	Heuston Infrastructure	2.4%	604,811.45
R300	Kildare Infrastructure	8.2% **	2,114,219.19
R310	Killarney Infrastructure	1.1%	282,052.01
R320	Limerick Junction Infra	1.9%	492,886.60
R325	Limerick Infrastructure	3.3%	857,091.50
R340	Mallow Infrastructure	1.0%	268,924.60
R375	Mullingar Infrastructure	1.7%	425,636.38
R377	Navan Infrastructure	2.5%	631,234.15
R380	Nenagh Infrastructure	2.7%	684,102.49
R390	Northwall Infrastructure	0.0%	10,382.03
R405	Pearse Infrastructure	3.0%	775,382.66
R415	Portlaoise Factory & Infra	43.6% **	11,200,377.13
R480	Thurles Infrastructure	1.0%	260,603.82
R505	Waterford Infrastructure	0.6%	159,289.38
		100%	25,667,253.47

** Three highest stock values per location, broken down as follows:

Portlaoise Hub

Portlaoise Materials	466,326.76
Sleeper Plant	93,390.47
Rails & Fix	10,640,659.90
	<u>11,200,377.13</u>

Kildare Infrastructure

On Track Machinery Spares	1,810,843.29
Oil	8,401.51
Rails & Fixings	279,543.63
Portlaoise Materials	15,431.36
	<u>2,114,219.19</u>

Connolly Infrastructure

Portlaoise MA	28,275.41
Signaling Electric	73,000.72
Lifting Machine	216,625.07
Rails and Fix	1,046,170.67
	<u>1,364,071.87</u>

APPENDIX 12

SAMPLE STOCK TRANSFER FORM IN USE

– WATERFORD TO PORTLAOISE

Section 2.

SECTION 2

IARNRÓD ÉIREANN

Procurement & Internal Controls Investigation

**Strictly Private &
Confidential**

Prepared by:



**BAKER TILLY
RYAN GLENNON**

**FINAL REPORT
JUNE 2008**

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CONFIDENTIALITY

The contents of this Report are based on the documents, information and explanations made available and provided to us. We have not, except where specifically indicated in this Report, independently verified the information provided or representations made to us.

This Report and our Interim Report on the procurement systems is confidential and is for the benefit of the Iarnród Éireann Steering Group Committee set-up for the purposes of this assignment in accordance with the *Terms of Reference* provided. This report should be treated as highly commercially sensitive. No responsibility or liability is extended or shall be extended to any third party for the whole or any part of its contents nor can its content be relied upon in any way by third parties. Should you wish to disclose it to a third party we would request that our permission is sought in advance.

I. INTRODUCTION

BACKGROUND

Iarnród Éireann (the Company), is a subsidiary of Coras Iompair Éireann (CIE) a semi-state company. The company is responsible for maintaining Rail Passenger and Freight Services in the Republic of Ireland as well as Port and on train catering operations.

Baker Tilly Ryan Glennon were engaged to carry out a full review of:

1. Procurement Department within Infrastructure Maintenance, Signal Electrical & Telecommunications (SE&T) and New Works
2. Internal Control Systems within the Infrastructure Maintenance, Signal Electrical & Telecommunications (SE&T) and New Works divisions
3. Review of the management of stock inventory in the Portlaoise Depot and line-side, throughout the rail network.

The stated primary objectives of the CIE Group Procurement Policy and Procedures (CIE Procurement Policies) dated 6 September 2006 are to ensure that all transactions:

- “Give the Group best value for money;
- Utilise the Group’s significant purchasing power;
- Are transparent;
- Ensure equality of access to qualified suppliers; and
- Comply with Government Guidelines, applicable EU procurement legislation (“EU Procurement Directives”) and all other applicable laws.”

The background and events leading to the requirement for this review arose from ongoing internal investigation into activities associated with the removal and unauthorised disposal of track materials and 'suspect' transactions with suppliers of materials and services.

We wish to acknowledge the substantial contribution of the internal Company Cost Audit & Efficiency Department led by [REDACTED] [REDACTED] who provided us with valuable evidence and facilitation of meetings with internal personnel throughout the assignment. We also wish to acknowledge the guidance and assistance provided by the Steering Committee.

The Terms of Reference was split into two categories:

- A. Systems Review
- B. Forensic Review

A. Systems Review – Terms of Reference

- “Undertake a full review of the current system of procuring plant hire and contracted labour to include the authorisation protocols, monitoring processes and transaction validation involved. This review will take into account work previously undertaken in this area by the Company.
- Carry out an examination of the management of line-side materials e.g. Rails and sleepers, a particular focus to be placed on the movement and accounting for stocks into and out of the Portlaoise Sleeper Plant as the hub distribution and stockpiling centre.”

This involved:

- Review of the IMSN Procurement System from Policy formulation at the highest level through to transaction compliance testing at the lowest level a - “root and branch review”.
- Review of the Stock Management system for controlling and recording stock movements in to and out of Portlaoise Depot and line-side materials throughout the Company.

The Systems Review was the subject of our **Interim Report** dated 31 January 2008, which is attached. The Interim Report contains 156 recommendations. These recommendations are summarised in the Executive Summary of this Report.

B. Forensic Examination – Terms of Reference

- “Carry out an examination of conduct in the acquisition, deployment and management of services, resources and plant/equipment procured during the period from January 2004 to date and the relationships with contractors of goods and services to the Company. Assess the extent of actual loss or misappropriation and assess where potential future risk arises.
- Identify and determine responsibility for any breach in procurement policy specifically to identify any neglect to duty or lack of competence in the acquisition of goods and services and to report on areas where loss or misappropriation has occurred and the associated value and comment on where potential future risk arises.”

This involved:

- Assessment of the extent of actual loss or misappropriation from January 2004 to date.
- Identification of responsibility for any breach in procurement policy.
- Report on areas where loss or misappropriation has occurred but where the value of loss cannot be determined
- Assess where potential future risk arises.

We sought clarification from the Steering Committee of the interpretation of these Terms of Reference. We were informed by the Chief Executive of the Steering Committee that a value amount is required for the assessment of actual loss or misappropriation only. We were informed that a value assessment is not required for loss considered to exist but not actually quantified during the course of our field work. However we recommend that further investigative work is carried out by Iarnród Éireann in respect of the higher risk areas highlighted in this report.

This Report has primarily focused on the second of these areas, the **Forensic Examination**. Our key Findings and Recommendations are included in the Executive Summary of this Report.

THE CONTEXT OF THE REVIEW

The Company is engaged on an extensive Capital and Infrastructural Development Programme in line with the stated Government initiatives outlined in Transport 21. This involves very substantial capital investment over the life of the programme from 1999 to 2013.

To place our Report in context of annual spend by the Company for the areas under review, the Infrastructure Maintenance Budget alone for 2007 has an annual spend in excess of €75 million.

The purchase order value expenditure raised for Infrastructure Maintenance, SE&T and New Works collectively, with external vendors, for the years 2005, 2006 and 2007 have totalled €176 million, €235 million and €252 million respectively. The value of purchase orders set up since January 2004 to April 2008 from vendors on the plant hire database totals circa €137 million.

While definitive figures are not available, based on estimates contained in documentation supplied by the Company, it can be assumed that similar levels of annual expenditure (at least circa €250 million per annum) will be incurred between the periods 2008 to 2015. If expenditure remains at 2007 levels, future expenditure in the areas under review range between €1.5 and €2 billion euro, over the next 5-7 years.

To place our Review of management of stock in Portlaoise Depot and of line-side materials into context, Appendix 9 of our Interim Report lists the value of stock at each location as at November 2007. It shows that the value of stock in

Portlaoise depot was circa €11.2 million and stock at both Kildare and Connolly depots was valued at circa €2.1 million and €1.3 million respectively. Considering the future spend in rail networks renewals projects and related works, it is likely that the overall stock value will also increase. Our recommendations on stock management should be considered in that context.

Our assessment of the risk of loss to the Company, together with the lack or absence of compliance within the current procurement system, should be considered within the overall context of the substantial annual procurement spend undertaken and to be undertaken by the Company.

BRIEF DESCRIPTION OF IARNRÓD ÉIREANN'S PROCUREMENT FUNCTION

PROCUREMENT FUNCTION

The CIE Procurement Policies Document dated September 2006 highlights the policies that the Company's procurement function must adhere to. It states "the CIE Group must ensure that proper procurement procedures are implemented including compliance with EU Procurement Directives (where relevant) and national guidelines."

Currently the Company has two procurement departments. The procurement department in Inchicore is responsible for the Infrastructural Maintenance, SE&T and New Works Divisions which is the subject of this review.

In the area of tendering, the Procurement Department appears in general to be compliant with the rules and regulations as set out in the CIE Procurement Policies manual, however in the case of transactions up to the value of €50,000, the procurement process is rolled out through the Company's divisions so that there is in effect a devolved procurement procedure.

AUTHORITY LEVELS

Presently there are over 150 people in the Company with the authority to either directly procure or procure through a third party in Infrastructure Maintenance, SE&T and New Works.

The value and volume of transactions for the areas under review is very large. By way of illustration, a document provided by the Company dated 27 March 2007 shows the volume of transactions being processed in period from January 2006 to December 2006 under the various transaction levels as follows:

Approval Level	Amount (€)	Number of Transactions	Value of Transactions (€)
1. Front Line Managers	Up to 2,000	10,982	5,527,992
2. Business Unit Accountants & Cost Centre Managers	Up to 50,000	4,050	35,827,333
3. Senior Managers	Over 50,000	417	184,578,602
Total		15,449	224,933,927

The company has introduced some controls over the payment process for higher value (over €50,000), lower volume transactions to ensure there is adequate supporting documentation in existence for payments made for transactions over €50,000. However we have concerns that the procurement system does not have significant controls in place to ensure that all transactions which should be the subject of these controls are in fact captured by these controls i.e. there is evidence that transactions are being arranged at procurement stage to fall below this threshold.

It is in the higher volume, lower value area (namely 1&2 above) where there is most concern. This is highlighted in our Executive Summary. The level of annual spend involved in this category is in the region of €40 to €50 million per annum for the company in the divisions under review.

PROCUREMENT MECHANISMS

Currently the procurement function utilises a number of mechanisms in the sourcing and purchasing of goods and services, namely:

- Specific Tender Contracts
- Quotations
- Framework Agreements
- Blanket Purchase Orders

The following is a brief description of how these mechanisms are intended to operate:

Specific Tender Contracts:

- Tendering procedures are generally utilised in the procurement of higher value or contract work to the value of greater than €50,000, where the quantity, timeframe and scope of work is clearly defined. This is generally utilised in the New Works and SE&T area. The tender contracts are set up with reference to both CIE and EU procurement policies and procedures and are designed to meet the principles of transparency, equality of treatment, proportionality and mutual recognition, set out in the CIE Procurement Policies.

Quotation

- Three quotations must be received for work that is less than €50,000 (€70,000 pre March 2007) in value. The quotations received must include a sufficient description of the materials required or the works to be carried out. The work is then awarded to the most suitable vendor (generally determined by the inspector or engineer in charge). Under CIE

Procurement Policies all request for quotations should be issued through a procurement manager.

Framework Agreements

- A Framework Agreement is set up for long term projects where some elements of the requirements cannot firmly be established at the commencement of the agreement. Generally the suppliers tender for inclusion as part of a Framework Agreement and an estimated value of the contract is established. Elements of the project are then awarded to suppliers based on various criteria including primarily the prices quoted. Smaller purchase orders are then set up and drawn down against the Framework Agreement on an ongoing basis over a period of time and the work is carried out with reference to the terms and conditions of the Framework Agreement. In practice Framework Agreements are set up for multi-million euro amounts, spanning a number of years and are more akin to a procurement facility arrangement.

Blanket Purchase Order

Blanket purchase orders are used by the Infrastructure Maintenance Division for the procurement of plant hire. At the commencement of each calendar year, the procurement department set up purchase orders based on divisional estimates of work needed for each vendor for Infrastructure Maintenance. The purchase order is then drawn down by way of service entries throughout the year.

Control Environment

There are significant findings contained in the body of the report as to the current operation of the Procurement Function.

2. EXECUTIVE SUMMARY

I. SYSTEMS REVIEW - KEY FINDINGS OF INTERIM REPORT:

The **key findings** of our Interim Report issued on 31 January 2008 were:

1. Widespread on-going non-compliance with procurement procedures is present within all Divisions reviewed going back some considerable time (years).
2. This on-going non-compliance is symptomatic of a more fundamental system deficiency. The current procurement function does not apply an appropriate business-based Procurement Strategy throughout the supplier engagement process. There is an absence of key procurement activities appropriate to a Company of this spend and transaction volume.
3. To achieve a Best Practice Procurement Model with significantly more focus on supplier control, a fundamental redesign of the Procurement Function is required. This will require more resources dedicated to the Procurement Function at a senior level and may require involvement of external consultants to lead the change process.
4. Based on feedback received from various workshops and questionnaires, it is clear there is an urgent requirement for education and upskilling for those occupying positions in **all** areas of Procurement, which should incorporate greater use of IT (SAP) within a redesigned and more robust procurement process.

5. The I.T. system which operates using SAP software is not being utilised to support sufficient monitoring of the procurement process. The SAP system is capable of producing exception reports as part of a rigorous independence, compliance and assurance regime however these reports do not exist as they have not been designed into the current procurement system.
6. With regard to the management of stock inventory, explanations for discrepancies arising in stock records are not being investigated to a satisfactory extent. This applies throughout all Divisions and locations reviewed. Considering recent serious breaches uncovered by the Company more dedicated stock control personnel are required along with additional audit procedures to implement satisfactory controls and fully investigate discrepancies.
7. Stock Inventory Management within the Portlaoise Depot is generally satisfactory however a review of site security procedures is required to provide greater involvement by the external security company. Compliance with stock control procedures at line-side is poor with significant exposure to unauthorised breaches by line-side personnel. One significant area identified is the absence of documented evidence of materials planned to be taken out of the ground at line side, significant in context of ongoing track renewal programmes.
8. To address these findings, 156 recommendations were included in our Interim Report.

II. FORENSIC REVIEW - KEY FINDINGS:

Our key findings, as outlined at section 3 of this Report are based on the programme of work undertaken since provision of our Interim Report in January.

Our findings are based on:

- Detailed analysis of documentation in the Procurement Division in Inchicore and other locations including SE&T and the Dublin, Athlone and Limerick divisions
- Interviews with staff
- Site location visits to verify specific transactions.

KEY FINDINGS:

I. CIRCUMVENTION OF PROCUREMENT POLICIES & PROCEDURES:

- There is evidence that some employees are taking advantage of the weak internal controls and lack of trained staff in the Procurement Function to circumvent CIE Procurement Policies. There is evidence that they are manipulating transactions so that they remain within their procurement authority, thus enabling them to appoint their chosen contractor.
- Apart from the obvious serious risk this has created for potential collusion with the vendor, this practice has also resulted in a loss of grant aid to the company for failure to employ proper procurement policies as required under EU law.

- This practice should be considered a serious breach of procurement policy as in effect any procurement transaction, including large value transactions can be manipulated to reduce their size into smaller transactions thus bypassing controls set up to govern larger procurement transactions.
- Evidence gathered confirms that risk of manipulation of the Procurement Process and of grant aid claw back exists on past projects going back to 2004.

2. ABSENCE OF CONTROLS IN PROCUREMENT DEPARTMENT:

- When the Company has a regular requirement for goods and services of a particular 'type' to be supplied over a period of time, in order to comply with procurement policy, the value of purchases made under these contracts must be aggregated and the procurement procedures must be followed for the accumulated value of these goods or services. There is evidence of instances where this has not been happening.
- The procurement department have no controls in place to monitor that transactions are properly aggregated for procurement purposes at the lower procurement authority levels.

3. ABSENCE OF DOCUMENTATION IN PROCUREMENT DEPARTMENT:

- Examination of procurement books and records revealed absence of documentation in respect of the procurement of goods and services. We have documented various instances where there are missing quotes, missing original documentation or where purchase orders were set up

based on a lower number of quotes than are required to comply with procurement policy.

4. INCORRECT DOCUMENTATION USED IN PROCUREMENT TRANSACTIONS:

- Instances have been found where tender documentation dating back a number of years, has been used as supporting documentation for subsequent procurement transactions which were not subject of the original tender. We strongly suspect this has been done without the original suppliers knowledge or consent as otherwise it would appear reasonable that those suppliers would query why they were not being given the opportunity to tender again for the new work.

- [REDACTED]
[REDACTED]

5. NON COMPLIANCE WITH PROCEDURES

- In numerous instances there are no Company records on file, of what the suppliers were originally requested to quote for. This meant that it was difficult to verify whether the vendors had been requested to tender for the same work. Judging from comparison of the content of certain tenders received from suppliers, they had described different works in both quantity and type in their tender for what was ostensibly supposed to be quotations for the same work.
- The CIE Procurement Policies state that requests for quotations should be submitted to the procurement department describing the work to be completed in unbiased terms. All requests for quotations must then be

issued through the procurement department manager. In practice this does not happen. In many instances requests for quotations are submitted to the procurement department by the engineers with the three quotes already attached and the procurement department then processes the transaction. The explanation offered is lack of resources and skill levels available in the procurement department forcing the engineers to effectively undertake the procurement function.

- There are obvious risks attached to this practice ranging from breach of procurement procedures to active collusion with suppliers. In our opinion based on our review the primary objectives of the CIE Procurement Policies are not being achieved.

6. NO SUPPORTING DOCUMENTATION IN RESPECT OF PLANT HIRE AND LABOUR TRANSACTIONS:

- As part of our forensic programme we carried out detailed transaction testing on a variety of plant and labour transactions. In the vast majority of cases no supporting documentation existed beyond a single invoice which was used to pass the transaction for payment on the SAP system. These invoices were often generic in nature with minimal description of work done on the invoice for what were significant amounts (€20,000 +). No supporting documentation whatsoever existed to vouch whether the work was done satisfactorily or at all, anywhere within the Company.
- We were unable to verify from the books and records whether the Company received any value for these transactions. A visit to the site to verify the extent, to which the work, the subject of the invoice, was carried out, would be required in every case and even then, there was no

documentation available to confirm whether the work done was satisfactory and in accordance with what is required. We were informed in these instances that the work was visually inspected by an engineer and that personnel resources to implement proper controls was a major limitation.

- The risks of loss to the company are significant in these instances and further increased in circumstances where the individual(s) responsible for procuring the work are absent for any reason including illness, staff turnover or departure. This is not practical and highly unsatisfactory from the company's perspective and not in accordance with the CIE Procurement Policies.

7. BUDGETING WITHIN INFRASTRUCTURE MAINTENANCE

- The budgeting system within Infrastructure Maintenance and supporting coding structure is set up to track expenditure by activity by location. Infrastructure Maintenance spend is tracked centrally and at Divisional level actual v. budget on an ongoing basis.
- The nature of spend tends to be repetitive in Infrastructure Maintenance (hedge cutting etc.). While we note there are high level budgets completed, the period reports in use monitor expenditure by location (PWI Division) but do not highlight expenditure by activity. Reports are not automatically produced to enable comparison of actual spend by per way, by activity. We noted substantial variances between per ways for maintenance spend (for which there may well be valid explanations considering differing engineering criteria) however we were unable to

undertake meaningful comparisons as no planned maintenance regime or spend per location by activity maintenance budgets are in existence.

- It is very difficult with current information to assess whether value for money is being obtained or whether there are material variances arising for year on year maintenance spend even within the same per way location.
- We understand that steps are being taken to undertake a planned maintenance regime in conjunction with appropriate Engineering input and we endorse this development.

8. COST ANALYSIS VIA WBS CODES

- There are substantial issues with capturing costs using certain WBS codes in SAP. The SAP system is configured to capture costs by project. Because of the way the SAP system is configured it is very difficult to provide a full list of transactions that were incurred by an individual inspector per year. In particular Renewals (R) codes and Capital (C) codes are difficult to use for this purpose. This makes it virtually impossible to monitor a per way inspector's spend and compare this spend to budgets either for quantum or value for money without significant manual extraction and collation of information from the system.
- This lack of traceability combined with other deficiencies in the system (see 11 below) provides the maintenance and renewals inspectors and

others with Procurement authority with wide flexibility to re-categorise or manipulate spend. It does not promote a culture of cost consciousness or responsibility.

- The introduction of a Field key to enable identification of spend by inspector throughout the different categories of spend would greatly assist the tracking and cross referencing of spend by Inspector to activity to assist budget monitoring and other related Procurement Objectives.

9. ABSENCE OF COMPREHENSIVE REPORTS FOR INFORMATION PURPOSES

- A material obstacle to our forensic review was the absence of relevant reports and information available from SAP. There are currently no reports in existence in the Company which provide the complete cycle of a transaction from the formulation of the purchase order, to the goods receipting and invoicing of the transaction. We have noted some exception reports exist within various divisions however these are relatively new and done on an ad hoc basis, not as part of a co-ordinated programme.
- The Exception Reports that have been developed may miss key information, as a number of the key fields on SAP are not compulsory and therefore are often left blank thus limiting the value and use of the reports.

10. MONITORING OF FRAMEWORK AGREEMENTS

- Post award of tenders, there is a lack of communication between the procurement department and ongoing users of the procurement facilities

when the facilities are being drawn down. Once the framework agreements have been set up and leave the procurement department for use, it is not clear as to who is actively undertaking the responsibility to monitor adherence to the terms of the agreements. The procurement department have stated it is not their function, yet it is a vital element of procurement control. The Procurement Department should have an ongoing monitoring role (Procurement audit) on this aspect, as part of their remit.

- We found evidence that one vendor was charging their rates (which varied) based on who they were working for within Iarnród Éireann, and not based on any procurement facility. These rates then appeared on the invoice and not those that were originally tendered for. This practice undermines the tender process.

11. UNUTILISED PURCHASE ORDERS

- During our examination we found that a substantial number of purchase orders had been set up on the SAP system which have not been fully utilised. Often the remaining balances of the purchase orders are left open and available for use. We note that this happens primarily in SE&T.
- For example purchase orders set up with [REDACTED] totalled €31,936,814 between 2004 and April 2008. Goods receipted for the same period total €23,990,281. This leaves a difference of €7,946,533. A substantial proportion of the purchase orders making up this balance remain open and available for use.

- It is a strong possibility that old purchase orders are being used to charge in current work and there is little or no tracking of whether the expenditure being put through these purchase orders on the system is expenditure for which the original purchase order was set up. This can lead to abuse of the Procurement process, and manipulation of budgets.

12.WEAK I.T. CONTROLS

- We found evidence that several invoices had VAT incorrectly accounted for by the vendor. The incorrect gross amount was then paid by the accounts department. On examination it became apparent that a control in the accounts payable department had been ignored in the SAP facility to calculate VAT.
- This is symptomatic of the weak controls around SAP and the ease in which the system can be overridden.

13.INCORRECT INVOICING

- We found evidence that purchase invoices were approved for payment on SAP and subsequently paid, for work apparently done, which was described incorrectly on the invoice and on the purchase order on SAP. The explanation offered was that work had been done by the contractor which was 'similar' to what had been approved for payment. However, the invoice paid was for a lower amount than what the supplier was entitled to charge had the correct invoice been submitted for that type of job.

- This raises the query as to why the supplier (██████████) did not themselves query the under payment and/or why the supplier submitted an incorrectly described invoice for payment for a different job of work in the first instance.
- This incident underlines the lack of control over the approval for payment process within SAP and the complete absence of other documentation to support whether in fact work was ever done on transactions such as the one referred to in this example. The incident was picked up through data interrogation which identified irregularities, in this case duplicate payments. We strongly suspect this is not an isolated incident.

14. GRANT AID

- Considering the findings of our forensic review, the company may need to consider the implications of these findings in so far as grant aid received and receivable is concerned.

15. ASSESSMENT OF LOSS

Our findings in relation to assessment of loss are contained in Section 3 of this Report.

III. FORENSIC REVIEW - KEY RECOMMENDATIONS:

The findings in our Forensic Review confirm the weaknesses identified in our Systems Review.

1. The recommendations in our Systems Review should be adopted. Given the comprehensive and widespread changes in design and work practices that are required we recommend that a dedicated Task Force is set up, with the requisite knowledge and skill base needed to undertake and drive restructuring of the procurement function. While we note that additional measures have been introduced to strengthen control in some areas, this has been done on an ad-hoc basis. The entire Procurement Function needs to be restructured, driven by a Task Force, dedicated to that purpose.
2. Further transaction testing should be undertaken by the Company using the supplier data provided in the appendices to this report as we expect that further evidence of unauthorised activity and loss to the Company will be uncovered.
3. Using further evidence gathered at 2 above, engagement should take place with suppliers under the headings of:
 - a. Transaction Verification
 - b. Account Reconciliation
 - c. Terms of Trade and adherence to Tender Conditions
 - d. Dependant on further evidence uncovered, provision of compensation to the Company for overcharging. Legal advice will be required. The extent to which the lack of compliance or

acquiescence by IE staff will limit the scope for compensation from suppliers will be a factor to consider.

- e. Redesign of the Supplier Engagement process throughout the organisation (following implementation of 1 above).

- 4. A method of detailed planning budgeting should be introduced within the Infrastructural Maintenance division linked to the introduction of a Planned Maintenance Regime by per way. While we acknowledge the costs for maintaining track in each location will vary we recommend that at least a benchmark should be in place to budget the annual costs of maintaining a mile of track and the annual costs each inspector should expect to incur in any given perway by activity .

Exception reports should be designed to highlight if variances incur and the system should be designed to require that explanations together with supporting documentation is provided to senior management by the per way inspector.

SUMMARY

We consider that implementation of our recommendations will bring the following benefits to the Company.

- 1. Substantial cost savings amounting to potentially €millions of euro per annum (considering annual spend of €250 million for areas under review).

2. Greater credibility to the Procurement control process in the context of the Company competing against private sector competitors for New Capital Projects going forward.
3. Significant reduction of Business Risk throughout the organisation under a number of headings e.g. Financial, Regulatory, Reputation.
4. Greater employee satisfaction and improved skill levels throughout the Company.

3. ASSESSMENT OF THE EXTENT OF ACTUAL LOSS

RISK PROFILING

We have been asked to assess the extent of actual loss to the organisation from breaches of Procurement procedures in Infrastructural Maintenance, SE&T and New Works. This is summarised below and in Appendix 1 & 2.

The Company employs a Risk Profiling System known as the Enterprise Risk Management Register (ERMR) which is referred to in its Annual Report and Accounts. We have reviewed this Report and note it refers to different categories of risk including Procurement risk in its Report format (extracts attached in Appendix 7).

As part of our assessment of loss we summarise below risk categories that impact on the organisation in this report which are not currently reflected in the ERMR. We have also attributed an assessment of the likelihood or potential impact of our findings on the risk categories for the areas under review.

Type of Risk	Risk Event	Likelihood/ Probability	Potential Impact	Risk
Financial Risk	This category includes general account management concerns, tax obligations, remuneration and budgetary requirements. It also includes actual or suspected fraud, loss of value added opportunities or economies of scale, loss of grant aid and risk of litigation from suppliers.	Almost Certain	Super Critical	High
Compliance/Legal Risk	This category includes compliance with legal requirements such as legislation, regulations, standards, codes of practice and contractual requirements. This category also extends to compliance with additional 'rules' such as policies, procedure or expectation, which may be set by contracts, customers or the social environment. This category includes director's responsibility under the Companies Acts to maintain Proper Books and Records	Almost Certain	Critical	High
Reputation Risk/ Stakeholder Management	This entails the threat to the reputation of the business due to conduct of the entity as a whole, the viability of product or service, or the conduct of employees or other individuals associated with the business. This category also include the management of stakeholders (both internal & external) and includes identifying, establishing and maintaining an appropriate relationship.	Possible	Critical	Medium

We noted that the ERMR categorises, as critical, the risk of serious non compliance with procurement procedures and have described the current company status as amber (controls in place but measures planned to further improve effectiveness). The potential impact is listed as:

- "Contractor seeks redress through European Courts and/or Irish Courts – damages paid.
- Government/EU seek financial compensation
- Loss of future funding"

We consider based on our findings that the procurement controls in place are inadequate and capable of very significant improvement. Thus in our view, the risk of loss to the company is super critical, requiring immediate action to restructure the Procurement Function within the areas under review with priority to SE&T and Infrastructure Maintenance Divisions.

The ERMR which the company utilises does not place a monetary value on risk categories. If a company has no idea of the level of loss which it faces, there is good empirical evidence to support a view that in an average organisation the amount of loss from illegitimate expenditure (fraud) alone can be in the order of 5% of total expenditure. This percentage is substantiated by surveys undertaken by the Association of Certified Fraud Examiners and is considered as a benchmark measure within the Forensic Industry.

This benchmark measure (5%) excludes other categories of loss such as loss of economies of scale, loss of value for money, loss arising from grant aid claw back, loss arising from litigation by third parties or loss through cost of disciplinary proceedings taken by the company against staff suspected of

fraud misdemeanours. All of these categories of loss have a monetary value. Most categories are present in the current environment under review.

We would consider empirical evidence benchmark of a 5% measure to be a representative estimate of loss arising to an organisation with weak internal controls.

Dependent on the state of internal controls in an organisation, the impact of greater risk of non compliance or collusion can be to increase the percentage measure by as much as a further 2.5% - 5% of total expenditure.

The corollary is also true in that implementation of effective measures to increase controls would be expected to reduce loss by a significant amount to an organisation.

Following receipt of clarification on our Terms of Reference from the Chief Executive of the Steering Committee, we can confirm that we consider it impossible to assess the full extent of actual loss suffered by the Company in the period from 2004 to date, through breaches of procedures. This is due to the sheer volume of transactions which have taken place, the lack of information (reports) and underlying data in the M.I.S. System of companies books and records, and the extent of the non compliance with procedures revealed which itself contributed to our being unable to provide a complete figure for actual loss in the Period under Review. We have provided a monetary assessment of actual loss found (€2.6 million) and consider, based on our findings, that there is a higher likelihood that further loss occurred in the period under review.

FINANCIAL IMPACTAssessment of Actual Identified Loss

Following our forensic review of highlighted areas of the company we have assessed the level of actual identified loss to the organisation as **€2,641,859**, set out hereunder as follows:

	Assessment of Actual Identified Loss 2004 to Date
	€
North Wall	892,887
██████████ Transactions	1,748,972
All Other Vendors	N/A
Stock	N/A
Total	2,641,859

Appendix 1 attached is a breakdown of the various events which have arisen in the organisation and have resulted in our assessment of actual loss quantified at **€2,641,859**.

DEFINITION OF LOSS:

As outlined in our Interim Report, loss to the Company can occur in a number of ways including:

- Loss of value-added opportunities and economies to be gained in the market place from co-ordination of very substantial purchasing power within the Divisions throughout the Company.

- The actual cost of known (and unknown but suspected) breaches of procurement culminating in procurement fraud on the Company by internal personnel either acting alone or in collusion with external suppliers.
- The potential impact and possible cost by way of claw back of Grant Aid arising from grant condition breaches by external agencies to include Grant Agencies and other suppliers of external funding to the Company.
- Potential exposure to claims of discrimination and possible litigation from unsuccessful suppliers of services to the Company, who become aware of subsequent non compliance with tender conditions by competitors, suppliers arising either by lack of internal procurement control procedures or active unauthorised collusion with a successful supplier by company employees.
- Reputation risk.
- Potential exposure to liability and penalties from non compliance with regulations and legislation.
- Cost of disciplinary and related legal proceedings with employees or related parties (suppliers)

Cost of action required to design and implement more robust internal procedures and communication of same to all stakeholders, including supplier base.

Taking account of the findings in the Systems Review and Forensic Examination, **Appendix 2** attached is an outline of some further additional areas where risk of loss is evident.

ASSESSMENT OF RISK OF FUTURE LOSS

The Terms of Reference refer to the requirement to assess the risk of future loss to the Company. Future projected expenditure has been requested from the company but not provided.

Due to constraints referred to elsewhere, it has not been possible to quantify the risk other than to state that it is super critical.

We are confident that this risk could be substantially reduced if a redesigned procurement system was implemented in the company in line with our recommendations.

We consider it unrealistic to assume that an organisation of this size and diversified procurement function would be able to completely eliminate risk of loss, however we are satisfied, based on our findings that very significant improvement in the current environment is possible and urgently required.

It is worthwhile to note that using an estimated future annual expenditure, for the divisions which are the subject of this review, of €250 million per year, substantial cost savings can be achieved by strengthening controls through undergoing a Task Force led reorganisation of the Procurement Function.

4. SCOPE LIMITATIONS & METHODOLOGY EMPLOYED

SCOPE LIMITATIONS

In the course of our review it became clear that the supporting documentation required to undertake a thorough forensic review does not exist.

Much of our forensic review was then spent attempting to gather information and undertaking data interrogation to facilitate a detailed review of the supplier database and the procurement tendering process.

We then had to formulate and extract our own exception reports from the SAP system. This again was hampered due to the under utilisation of SAP by the Company as noted in our Interim Report.

Absence of exception reports within the Procurement Function and inconsistent entering of data on the SAP system has been noted as a key finding of our Review (Executive Summary – Note 9).

It was agreed with the Steering Group that we proceed with our examination focusing on specific locations/hubs with high risk potential. This focused the scope of the fieldwork to areas identified as requiring specific examination to enable use of the findings in those locations to assist further detailed investigation by the company.

Areas that were agreed are:

1. Concentration on the estimated scale of loss in North Wall.
2. A review of the relationship of certain suppliers with company staff, specifically to concentrate on the following suppliers:
 - a. [REDACTED]
 - b. [REDACTED] (and associated companies)
 - c. [REDACTED]
3. Estimation of Loss of Stock in Portlaoise Depot
4. Review Supplier Data Base

We then concentrated on the following areas:

Data Interrogation of Iarnród Éireann SAP MIS System

- Findings and recommendations following interrogation of data related to suspected vendors, employees and locations;
- Findings regarding the availability or absence of SAP reports to assist in the evaluation of procurement breaches within the Company;
- Recommendations regarding the capture and reporting of key data at different levels to help monitor compliance with procurement procedures and highlight potential fraudulent activities. (Establishing compulsory SAP fields and controls to monitor compliance etc); and
- Provision of data analysis models in the form of printed reports and modelling tools. We wish to acknowledge the assistance of the cost audit and internal audit departments on aspects of this work.

Design of a Risk Profiling Template

This is a template we designed, listing all the categories of breaches identified and attributing a risk level to these breaches.

This risk profiling template was supported by:

- Independent findings from fraud surveys;
- Vendor profiling;
- Benford's law analysis by supplier;
- Selected transactions testing fieldwork (to include files of documentation retrieved); and
- Personnel profile analysis.
- Templates which displayed high risk areas in the purchase to pay process at operational level.

Assessment of Actual Loss based on the above

- We then assessed the actual loss by reference to actual loss identified from fieldwork by us and by the Company through its own ongoing internal investigations. It was not possible to assess total loss due to other constraints, except to state we are confident that other unidentified loss exists within the organisation. Our Report provides recommendations on how to address this issue.

THIRD PARTY VERIFICATION

As part of our fieldwork we recorded meetings with key management and staff.

Third party verification with suppliers was not undertaken in our examination due to the volume of transactions in the system, the difficulty in extracting information and time constraints.

5. CONCLUSION

This concludes our Report under our Terms of Reference. We are available to meet with the Steering Group Committee and other Representative Committees within the company to discuss our Report, as required.

We would like to express our appreciation to the management and staff of the Company for the time and co-operation afforded to us during the course of our review. We have endeavoured to work within the constraints of staff availability and acknowledge in particular the assistance of [REDACTED] in facilitating the considerable volume of meetings and information/documentation requests necessary to fulfil our terms of reference.

BAKER TILLY RYAN GLENNON

DATE:

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ASSESSMENT OF ACTUAL LOSS FROM FORENSIC INVESTIGATIONS:

We have calculated the actual loss arising from events which are the subject of this report as €2,492,414 set out as follows:

Table A:

	Actual Loss
	€
North Wall	892,887
██████████ Transactions	1,599,527
All Other Vendors	N/A
Stock	N/A
Sub - Total	2,492,414

1. ASSESSMENT OF ACTUAL LOSS - NORTH WALL

The actual loss incurred due to incidents which occurred during the North Wall/Spenser Dock project and other events which arose in the North Wall area total **€892,887**, summarised hereunder as follows:

Table B:

North Wall/Spenser Dock	€ - Event 1 – Removal of Soil from North Wall	€ - Event 2 – Collusion with Contractor	€ - Event 3 – Missing Stock
Financial Risk:			
Actual Cost of Known or Suspected Fraud	257,682	271,665	363,540
Loss of Value Added Opportunities or Economies of Scale	Not Applicable	Not Applicable	Not Applicable
Loss of Grant Aid or Risk of Claw Back	The €257,682 was excluded from the EU Grant Claim and was financed solely by The Company	Not Applicable	Not Applicable
Risk of Potential Litigation from Suppliers	Confirmed but not quantifiable	Not Applicable	Not Applicable
Total Loss €892,887	257,682	271,665	363,540

EVENT 1 – REMOVAL OF SOIL FROM NORTH WALL

- As part of the Docklands Station Development Project, work was completed in the freight yard in preparation for the project commencement in 2006. As part of the preparation, New Works prepared a tender package in July 2006 for the removal of hazardous and non hazardous soils which were accumulated during the course of construction. [REDACTED] [REDACTED] tendered for the contract to

remove non Hazardous Soil in July 2006 but was unsuccessful and the contract was awarded to [REDACTED]. However invoices were received at a later date from [REDACTED] for the removal of non hazardous soil from the area outlined above from January to July 2006. It is the contention of New Works that [REDACTED] [REDACTED] were never tasked with, nor did they perform soil removal activities from the North Wall Freight Yard during the course of the project and they are disputing the full extent of the invoices.

- The invoices were signed off by [REDACTED] and were paid by accounts payable between January and July 2006 quantified at €257,681.60 gross. The invoices were not matched to any planned work or budget of costs for the project, prior to payment of the invoices. Further invoices were submitted by [REDACTED] [REDACTED] in December 2006 however these were not paid by The Company. We understand that there are currently legal proceedings ongoing with the said company.
- Blanket purchase orders are set up on the SAP system at the beginning of each year by the procurement department for general plant hire work in the Infrastructure Maintenance Department. The invoices that are the subject of review were charged against a blanket purchase order and then coded to a capital WBS code.

- On review of the invoice insufficient detail was provided and no supporting documentation was available. This made it difficult to determine if the work was actually done. Figures provided by [REDACTED] independent consultant engineers, indicated that the work detailed in the invoices could not have been done as the quantity of soil left over to be removed from site was minimal.

EFFECT

- Invoices were paid to the value of €257,682 for work the company considers never took place.
- The Dockland Station Development Project was funded under an EU Grant Scheme. Due to the incidents outlined above, expenditure of €257,682 has been omitted from Grant Claims. This means that all costs will be borne by Iarnród Éireann.

EVIDENCE (SUPPLEMENTARY FILE NO. 1)

- a) [REDACTED] tender documentation for the removal of non hazardous soil and rubbish disposal dated 04 August 2006.
- b) [REDACTED] tender documentation for the removal of non hazardous soil and rubbish disposal.
- c) Copy of disputed invoices paid between January and July 2006 totalling €257,682.
- d) Copy of letter from the environmental officer of New Works dated 27 April 2007 disputing full extent of invoices.

- e) Copy of further invoices received from [REDACTED] for soil removal from North Wall submitted in December 2006 totalling €23,329.
- f) Report prepared by [REDACTED], Consultant Engineers dated 23 April 2007 on the extent of earthwork quantities for the Docklands Station project.

EVENT 2 – COLLUSION WITH CONTRACTORS:

- Through internal investigations in the Company [REDACTED] [REDACTED] has admitted involvement in collusion with both [REDACTED] and [REDACTED]. Results of the internal investigation carried out indicate that [REDACTED] was signing fraudulent time sheets or requesting plant hire and labour when not required. [REDACTED]
[REDACTED]
[REDACTED]

EFFECT

- Fraudulent invoices have been paid for a number of years under [REDACTED] [REDACTED] request authority. An estimation of losses totalling €271,665 has been quantified in respect of the above transactions.
- We have been informed that the employee has repaid the Company €100,000 as compensation for the above transactions.

EVIDENCE

- g) Schedule of expenditure authorised by [REDACTED] provided by Cost Audit & Efficiency Unit
- h) Baker Tilly workings on calculation of Losses dated 23 April 2008
- i) Sample invoices demonstrating fraudulent activity

EVENT 3 – MISSING STOCK

- An audit of plant hire was carried out by the Companies Cost Audit and Efficiency Unit in May 2005 in the Dublin Division of the Infrastructure Maintenance Unit. The audit revealed large quantities of stock (rail and sleepers) were being removed and sold by the company staff for personal gain. The staff involved were using Company resources to break-up and transport the material for sale.
- On the 4th July 2006 a [REDACTED] truck was pulled over by Gardai, heading in the direction of Wicklow, carrying sleepers. On 5th July 2006, a Garda patrol car stopped an [REDACTED] Truck which had left the rail yard loaded with 40 – 50 lengths of rail on the M1 near Laytown. The truck had been en route to [REDACTED] [REDACTED] to sell the rail. Receipts were also recovered for two loads which had been taken to [REDACTED] on the 3rd and 4th of July 2006. Surveillance reviewed indicates that theft of rail and sleepers was a continual and ongoing event.

- When the purchaser of the stock in Wicklow was questioned he confirmed that he had been in receipt of 1,000 to 1,200 sleepers per year for which he paid €14 per sleeper to the Irish Rail employee.

EFFECT

- Iarnrod Éireann have suffered a continuous loss over several years for the value of missing stock including the value of Irish Rail labour utilised during this time and the plant hire used in delivering the misappropriated stock to its end destination.
- Estimation of losses by the Cost Audit & Efficiency Department total €645,000. Estimation of losses by the Infrastructural Maintenance Department total €450,971. We have quantified the losses to the organisation at €363,540 (Workings in Lever Arch File 1)
- The main discrepancy between our calculations and the internal Irish Rail calculations are that we have eliminated the losses suffered in respect of sleepers. This is because currently under law, the sleepers can not be sold to the general public due to their carcinogenic properties. It should be noted that there is a minor risk of litigation on health grounds if it emerged that carcinogenic stock had been sold to the general public by Irish Rail employees. It is not possible to quantify this.

- As noted in our Interim Report, control around the movement of line side stock is weak and documentation is minimal. The risk of further misappropriation of stock from line side remains high as previously related discrepancies in the stock inventory are not being properly or satisfactorily explained.

EVIDENCE (SUPPLEMENTARY FILE NO. 1)

- j) Workings of losses by Infrastructural Maintenance Department
- k) Workings of losses by Cost Audit & Efficiency Unit
- l) Workings of losses by Baker Tilly Ryan Glennon.

2. ASSESSMENT OF ACTUAL IDENTIFIED LOSS - TRANSACTIONS WITH [REDACTED]

The actual loss incurred due to breaches of procedures in relation to [REDACTED] transactions examined total €1,748,972 summarised hereunder as follows:

[REDACTED]	€ - Event 1 – New Mini CTC Project	€ - Event 2 – Non Compliance with Framework Agreements	€ - Issue 3 Collusion with Contractor
Financial Risk:			
Actual Cost of Known or Suspected Fraud	Not Known	Not Known	30,602
Loss of Value Added Opportunities or Economies of Scale	High Risk	777,600 – Current PO Est. 1,166,600 Original PO Est. 1,520,394 – Simple Average	High Risk
Loss of Grant Aid	940,770	Not Applicable	Not Applicable
Risk of Potential Litigation from Unsuccessful Suppliers	High Risk	High Risk	Not Applicable
Total Loss - €1,748,972	940,770	777,600	30,602

It should be noted that these transactions form only a very small element of the total volume of business the company conducts with [REDACTED] which in the period from 2004 to April 2008 total over €23 million. It was not possible to test all transactions due to volume, time constraints and I.T. System constraints.

EVENT 1 – NEW MINI CTC PROJECT

- As part of the ‘New Mini CTC’ project, a tender contract number CE 1369 was prepared, dated 24 October 2003, in order to source a vendor for the development of radio sites along the New Mini CTC lines. The work was awarded to three vendors who tendered; [REDACTED] (€34,390 – which included the construction of a generator room for €14,500), [REDACTED] (€20,756.37) and [REDACTED] (€22,478.96). The documentation in respect of the work each vendor was requested to tender for is missing from the procurement department and was therefore unavailable for inspection.
- Subsequently [REDACTED] was awarded the work for the development of a further 53 radio sites at a price of €19,182(net) per site between January 2004 and December 2007 totalling €1,016,669. The work was not re-tendered for and the same quotations for [REDACTED] and [REDACTED] featured in contract number CE 1369 and dated 24 October 2003 were utilised. No vendor was given an opportunity to re-quote for the development of the sites.

- [REDACTED] circumvented the procurement process by setting up purchase orders at a level marginally below the minimum tender threshold of €70,000 (3*€19,182). The tender threshold level was reduced to €50,000 on the 14 March 2007 and thereafter the engineer submitted purchase orders for these transactions below the €50,000 (2*€19,182) threshold. Reasons provided for this was the perceived lack of an efficient procurement department and lack of sufficient resources.
- EU procurement law and CIEs own procurement policies and procedures state that when the company enters into a series of contracts to obtain goods and services, the value of purchases made under contracts must be aggregated and the EU rules will apply if the value of these taken together exceeds certain thresholds. In the case of the Westport Resignalling project the purchase orders for 20 radio site developments were set up within a five month period. This work should have been aggregated and a tender contract for €435,440 set up. There is also ancillary work including the erecting and rigging of the mast which totals €82,557 for 9 sites. This should have been added to the tender contract as being part of the project. The project under EU legislation would then have had to comply with EU Council Directive 2004/17/EC starting with a call for competition notice, which should have been sent for publication in the OJEU.

- At the interview with [REDACTED] it became apparent that of the 20 invoices which were described and recorded as radio site development-equipment compound development on the Westport line, six of these were in reality for the building of generators on the radio sites. The paperwork surrounding these transactions including the initial set up of the purchase order on SAP, the quotations used for the work and the final invoice submitted were all described incorrectly. Given the lack of paper work on the project it was impossible to know what work was completed for these invoices. Only [REDACTED] was able to state the actual work completed. This lack of paper documentation was symptomatic of all the radio site development work. In all instances the only document to denote the work was completed was a one page invoice which had no supporting documentation. Under Commission Regulation 438/2001 the managing authority must ensure the principles of sound financial management are adhered to and under this regulation the control procedures must include procedures to verify the delivery of the products and services co-financed, and the reality of the expenditure claimed, and to ensure compliance with rules in relation to the eligibility of expenses, public procurement, protection of the environment and equality of opportunity.
- A further examination of the documentation relating to the resignalling of the Rosslare line shows similar characteristics as outlined above. The invoices for the building of the generators on this

line are correctly described; however the quotations used for the work are not. Quotations received indicate that unrelated works are being used to supplement the quote received from [REDACTED] which results in [REDACTED] being awarded the job. This is a major breach of procurement policy.

EFFECT

- Both the Westport line and the Rosslare line were to be funded by both EU and Exchequer grant aid. Due to the significant breaches in procurement policy, the expenses incurred in the development of radio sites will not be eligible for funding and will have to be financed by Irish Rail. This results in loss of revenue to the company of €517,997 in respect of the Westport Line and €422,776 in respect of the Rosslare Line to December 2007. Expenditure on the Rosslare line has been ongoing.
- We note to date that the internal audit department have recommended that €421,472 be excluded/or will be excluded from grant aid claims in respect of the Westport Line and they state a further €422,776 will be excluded in respect of the Rosslare Line. Given these recent figures provided by Internal Audit and our own findings, it is likely that further loss has occurred.

- [REDACTED]
[REDACTED]

[REDACTED]

- [REDACTED]

EVIDENCE

- m) Tender Documentation dated 24 October 2003 received from [REDACTED]
[REDACTED], [REDACTED] and [REDACTED].
- n) Copy of Memo relating to the Amendments to the CIE Group Procurement Policies and Procedures dated 13 03 2007
- o) Schedule of Transaction of [REDACTED] taken from [REDACTED] Tables extracted from SAP
- p) Schedule of Radio Site Transactions linked to Location

- q) Copy of Invoices received for Radio Site Development from [REDACTED]
[REDACTED]
- r) Copy of Procurement Documentation received in respect of Radio Site Development
- s) Copy of SAP Screen Shots in relation to Radio Site Development
- t) Copy of Invoices related to Erecting and Rigging of Radio Sites from [REDACTED]
- u) Copy of Tender Documentation related to Erecting and Rigging of Radio Sites from various vendors
- v) Copy of invoices received in relation to building of Generators on the Rosslare Line from [REDACTED]
- w) Copy of tender documentation in relation to building of Generators on the Rosslare Line from various vendors
- x) Sample of Terms and Conditions signed for ERDF Funding
- y) Letter dated 10 March 2008 outlining EU Regulation which must be complied with in order to receive Grant Aid
- z) Circular /2001: Financial Management and Control Procedures for the European Regional Development Fund (ERDF) 2000-2006
- aa) Commission Regulation 438/2001
- pp) Calculation of Losses in respect of Grant Aid

EVENT 2 – NON COMPLIANCE WITH FRAMEWORK AGREEMENTS

- Framework Agreement No. CE 1793 was set up by the Procurement Department in 2006 for the provision of cabling and associated works services. [REDACTED] tendered for this contract and were awarded

36% based on the prices submitted, which had a value of €4,860,000 (36%) over a three year period. It emerged after this agreement was set up, that [REDACTED] did not invoice at the tendered rates but instead were charging rates based on their own increased figures. Due breakdown of basic contract management controls between the procurement department and the engineers/inspectors involved in the receipting of work, this breach was not noticed for approx. 9 months after reward of the contract.

- [REDACTED] have been charging varying rates which have never been tendered for, depending on the inspector they were working for. We have not been provided with any details as to the reason for the varying rates, however an explanation offered was that the supplier was unsure as to which framework agreement they were working under, which is not considered to be a satisfactory excuse.
- Once it emerged that there was a variance of rates between the framework agreement and the rates actually charged by [REDACTED], the procurement department agreed with the supplier to 'harmonise' the rates. The harmonised prices agreed are on average 31.29% higher than framework agreement CE 1793. This is effectively a renegotiation of rates post tender.
- When challenged on the point, the procurement department did not have a satisfactory explanation for the 'harmonisation' approach as

opposed to either forcing the supplier to abide by the original tender framework agreement (and seeking a refund for the overcharges) and/or re-tendering the framework agreement to allow the unsuccessful suppliers the opportunity to re tender.

- It is not clear why [REDACTED] should have been allowed the facility to 'harmonise' at all by the company as such practices carry high risk for the company.
- There is sample evidence on file to demonstrate that a competitor, [REDACTED], had no difficulty in complying with tender conditions and they have been invoicing inline with the tender as work awarded under the same Framework Agreements.

EFFECT

- The renegotiated rates have resulted in an increased cost to the organisation of circa 31.29% in respect of framework agreement CE 1793 using a simple average calculation. An increase of 31.29% results in a loss of €1,520,694 (Calculations in Lever Arch File 1)
- The losses will be dependant on the mix of actual hours utilised. Using the mix of hours estimated on the initial purchase order results in a loss of €1,166,000 to the company.

- Since the initial purchase order was set up, the mix of estimated hours has been adjusted on the SAP system for reasons unknown. Using the adjusted mix of hours will result in a loss of €777,600.
- The level of committed loss is therefore between €777,600 and €1,166,000
- The average marks given in the awarding of the contract were as follows:

	<u>Price</u>	<u>% Awarded</u>
○ [REDACTED]	€1,107	10%
○ [REDACTED]	€947	20%
○ [REDACTED]	€834	34%
○ [REDACTED]	€826	36%
○ [REDACTED]	€1,182	-
○ [REDACTED]	€1,396	-
		100%

If the increase of 31.29% was applied to the [REDACTED] tendered rate, this would increase it to an average rating of €1,084 and would relegate them to third place in the framework agreement. This in turn would mean that [REDACTED] would have received a substantially reduced proportion of the contract and one of the other vendors substantially more. [REDACTED] would have been awarded only

20% rather than 36% of the contract. This translates into a reduction to [REDACTED] in the value from €4.86 million to €2.7million.

EVIDENCE

- bb) Copy of Initial Framework agreement CE 1793
- cc) Copy of Initial Framework agreement CE 1586
- dd) Framework CE 1793 Board Approval dated 07.06.06
- ee) Schedule of [REDACTED] Rates Agreed Under Framework Agreement CE1793
- ff) Schedule of [REDACTED] Rates Agreed Under Framework Agreement CE1586
- gg) List of purchase orders processed under CE 1793
- hh) Schedule of sample Testing of Purchase Order Number 4500333868
– CE 1793
- ii) Schedule of sample Testing of Purchase Order Number 4500291784
– CE 1586
- jj) Schedule of [REDACTED] Dublin Division Rates (Unknown Source)
- kk) Schedule of [REDACTED] Agreed Harmonised Rates
- ll) Copy of schedule provided by [REDACTED] on Rates pre Harmonisation
- mm) Harmonisation of Rates Workings
- nn) Sample Testing of [REDACTED] transactions - Also involved in both Framework Agreements
- oo) Schedule showing Calculation of Losses Workings

EVENT 3 – COLLUSION WITH CONTRACTOR

- We have been provided with documentation by the company from internal investigations and evidence received from surveillance that one of the inspectors was utilising [REDACTED] for work that was false or not required. It was noted from cost audit investigations that the work which was being described on the system was not actually being carried out. Surveillance showed that the contractors were doing little or no work when they should have been under the supervision of the inspector in question.
- The senior engineer in charge interviewed the suspect. We have analysed the responses received and note that the explanation given is that while the contractors were not doing the work as described on the system, they were actually completing other work for the said inspector. However a review of the work which the inspector in question states was completed does not explain the discrepancies raised in internal investigations. In one instance the vendor was seen to be carrying out work at the inspector's private address.

EFFECT

- It is likely that the company has suffered financial loss whether through value for money or actual fraud during the period examined for the said inspector. Invoices for the period examined total €30,602. It is also highly likely that further losses have been incurred as a result

of the situation outlined above, which have been noted in our scale of loss estimate.

- A serious impediment to all such investigations conducted by the company is the lack of supporting documentation and widespread non compliance with procedures as documented throughout this report which allows staff under scrutiny the opportunity to ‘blame the system’ or provide explanations which cannot be disputed due to lack of evidence.

Pe.2

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ASSESSMENT OF SCALE OF UNIDENTIFIED LOSS:**1. ASSESSMENT OF SCALE OF UNIDENTIFIED LOSS ARISING FROM ALL VENDORS****INTRODUCTION:**

Apart from the findings and events documented elsewhere in this Report, the following are a series of specific events which have come to our attention. These events further illustrate the potential risk of loss to the company within the Procurement Function however it has not been possible to quantify the extent of the actual loss.

EVENT 1 – [REDACTED] – OTHER TRANSACTIONS

- Appendix 4 attached has quantified loss to the company from disputed [REDACTED] transactions at €257,682. This raises the question as to the authenticity of other expenditure incurred with [REDACTED]. A review of the other transactions shows a further €327,484 for soil removal which has been coded to capital WBS codes and drawn down from blanket purchase orders between 2004 and 2007. Circa 85% of these were signed by [REDACTED] involved in the disputed soil removal case. We are advised that blanket purchase orders used were set up for plant hire use only in the infrastructure maintenance department and should not have been used in New Works projects.

- It should also be noted there was further expenditure with the company for soil removal in the Infrastructural Maintenance Department between 2004 and 2007 which was coded to maintenance and renewals codes.

EFFECT

- Given the extent of transactions currently being disputed by the New Works division with this supplier, there is a high likelihood that the above expenditure also contains some other components of authorised expenditure which give rise to risk of loss, given the similar characteristics of the work. Also if any of this expenditure was included in grant aided capital projects, there is an element of risk given that the procurement procedures were not adhered to.

EVIDENCE – (SUPPLEMENTARY FILE 2)

- a) Summary of Transactions Allocated to Capital Codes
- b) Copy of purchase order screen shots.
- c) Copy of Invoices coded to Capital WBS codes

EVENT 2 – FURTHER INSTANCES OF BREACHES OF PROCUREMENT PROCEDURES IN S.E.T.

- During our forensic review we completed detailed random transaction testing in respect of several blocks of transactions for different types of work awarded to [REDACTED] to review their adherence to procurement policies and procedures. A substantial proportion of

transactions within the SE&T area, were in breach of procurement policy. Again work was awarded to the contractor which had not been correctly tendered or quoted for, and work which should have been aggregated was kept below the tender level.

- We also note from internal audit annual report 2007 which was presented to the Iarnrod Eireann Audit Review Group in March 2008 that further significant breaches were found in areas which are outside the scope of our report including significant non compliance in the Chief Mechanical Engineers Department.

EFFECT

- There is a high probability that ongoing breaches in procurement procedures including incorrect tendering will lead to a loss of value added opportunities and economies of scale. There is also a substantial risk of claw back of grant aid and potential litigation from unsuccessful contractors.

EVIDENCE

- d) Schedule of Transactions tested for compliance with procurement procedures.
- e) Copy of procurement documentation in respect of transaction selected.
- f) Copies of invoices in respect of selected transactions.
- g) E-mail received from [REDACTED] dated 12 March 2008 in respect of non compliance with certain procurement procedures.

- h) Extracts received in respect of CIE Group Internal Audit report dated March 2008.

EVENT 3 – FURTHER [REDACTED] TRANSACTION TESTING

- As part of our forensic review we selected groups of transactions from the portfolio of [REDACTED] transactions which looked unusual, based on the following criteria:
 - Substantial Time delay in receiving invoice
 - Work completed prior to service entry or purchase order being set up
 - Transactions with similar descriptions and similar dates
 - Transactions with different work descriptions but identical prices.

We selected a sample of 45 invoices from [REDACTED] to review, fulfilling the criteria outlined above. On review of the invoices it became apparent that there was little, or in the majority of cases there was no supporting documentation available to verify whether the job had been completed or not. Given the nature of the work (plant hire and labour) it was not possible for us to carry out a physical review to confirm receipt of value for money.

EFFECT

- We were unable to confirm whether or to what extent the work had been completed. In all cases the goods were receipted in Inchicore by [REDACTED], with no supporting documentation retained

either in Incheore or at lineside to confirm receipt of the goods or services.

EVIDENCE

- i) Copy of schedule outlining transactions selected.
- j) Copy of invoices selected for review.
- k) Copy of email correspondence received from inspectors outlining reasons for lack of documentation.

EVENT 4 – WEAKNESS WITHIN THE IT SYSTEMS INCLUDING PLANT HIRE DATABASE

- Appendix 3 attached is a risk assessment of the IT Control Environment. The report outlines significant weaknesses in the plant hire database and in the SAP system data interrogation capabilities.
- As an output of this Forensic Report we have attached data reports generated through the amalgamation of varying tables extracted from the SAP system for each of the vendors featured on the Plant Hire Database supported by Benfords Law analysis diagrams. These can then be reviewed and exception reports generated for further and more detailed internal testing. In respect of the vendors which are the subject of this review, we have further analysed the transactions into higher risk areas for review by Jarnród Éireann.

EFFECT

- The weaknesses outlined in appendix 3, particularly with reference to the plant hire database can result in the following:
 - Price Rigging;
 - Bid Tampering;
 - Loss of Value for Money;
 - PO Price changes after vendor awarded contract;
 - Risk of Fraud Exposure;
 - Potential Collusion between Employees and Vendors;
and
 - Risk that one same vendor will get majority of business.

EVIDENCE

- 1) Appendix 3 of our report details our review of the internal IT control environment.

EVENT 5 – FURTHER INTERNAL INVESTIGATIONS CARRIED OUT BY COST AUDIT & EFFICIENCY DEPARTMENT

- As outlined in Appendix 1 there is a high likelihood of collusion between [REDACTED] and one of the Vendors.
- We have only quantified the element of cost which was the subject of internal investigation findings; however, given the results of the

internal investigation and that of the other monitoring activities carried out to date by the Company, it would indicate that there is potential for loss in a substantially greater percentage of lineside inspector transactions.

- Figures received from the Cost Audit & Efficiency department show that [REDACTED] had created service entries to the value of €403,368 with [REDACTED] in 2006 and 2007.
- We also note from internal investigations and surveillance reports other company employees are suspected of involvement in fraud or other offences.

EFFECT

- Given the weak internal controls and the evidence uncovered by internal investigations, it is likely that there is a further element of loss from the above transactions. While we have not included this in our actual loss calculation, it is further evidence supporting our measure of the scale of historic loss.

EVIDENCE

m) Quantification of service entry creation by [REDACTED] by [REDACTED]

SCALE OF UNIDENTIFIED LOSS:

- As noted in our report the value of purchase orders raised between 2005 and 2007 for Infrastructural Maintenance and SE&T alone total €411 million. The goods receipted value for suppliers in the plant hire and labour area totals €123,672,482 between 2004 and present date.
- We prepared a Benford's Analysis of each of the vendors on the plant hire database (Appendix 4 & 5) which shows the variances of the invoices versus the statistically expected normal level.
- An estimation of the scale of loss in an organisation such as Iarnród Éireann is by definition an estimate. It is noted in a UK Government Fraud Survey (1999-2000) that 70% of fraud occurs due to an absence of controls or failure to observe existing control procedures. The 2006 ACFE Report to the Nation on Occupational Fraud and Abuse estimates that organisations lose 5% of their annual revenue to fraud. There is other evidence to support the industry benchmark that in an average organisation the amount of illegitimate expenditure could be in the order of 5% of total expenditure.
- Given the systematic non compliance with procedures and policies and the lack of internal controls, and current suspicions in relation to several vendors employees and our findings in our systems and forensic review, it is likely that the company has experienced a significant loss in the above areas.

EVIDENCE

- n) Total Purchase Order Goods Receipt Value per Vendor between 2004 to present date.
- o) Total Purchase Order Goods Receipt Value per Plant Hire & Labour Vendors between 2004 and present date.
- p) UK Government Fraud Survey (1999-2000)
- q) 2006 ACFE Report to the Nation on Occupational Fraud and Abuse

SUMMARY

We have not quantified the scale of unidentified loss, this estimate as we are informed it is beyond our Terms of Reference, however below is a Risk Template for all vendors.

ALL VENDORS	€
Financial Risk:	
Actual Cost of Known or Suspected Fraud	High Risk
Loss of Value Added Opportunities or Economies of Scale	High Risk
Risk of Potential Claw Back of Grant Aid	High Risk
Risk of Potential Litigation from Unsuccessful Suppliers	Medium Risk
Reputation Risk:	Medium Risk
Regulatory Risk:	Medium Risk
Estimation of Scale of Unidentified Loss	Unquantified

2. ASSESSMENT OF SCALE OF LOSS ARISING FROM STOCK

STOCK	€
Financial Risk:	
Actual Cost of Known or Suspected Fraud	High Risk
Loss of Value Added Opportunities or Economies of Scale	Not Applicable
Loss of Grant Aid or Risk of Potential Claw Back	Not Known
Risk of Potential Litigation from Third Parties/General Public	Not Known
Reputation Risk:	Medium Risk
Regulatory Risk:	Medium Risk

EVENT 1 – STOCK DISCREPANCIES:

- Following the review of the Stock Management System in our System Review, a number of breaches and non-compliances were identified in the area of stock management. In light of this, detailed sample transactions testing was undertaken in the area of stock in respect of [REDACTED] located in the Dublin area between April 2006 to November 2007.
- The reconciliations identified a substantial number of discrepancies between amounts submitted by [REDACTED] as closing stock compared to documentation submitted to the Divisions during the period. Due to the substantial variances arising on the above and due

to the incompleteness of documentation, reconciliation was impossible and therefore other methods were used to test the stock area.

A review was then undertaken of the SAP reconciliations made available by [REDACTED]. These reconciliations are based on the Stock figure reported by SAP and compared with stock counts submitted by [REDACTED] or counted by the Materials Management Department. Should a variance arise between these figures than the amount of stock counted is posted to the SAP as the new closing stock figure. A reconciliation was also carried out on [REDACTED] using this method and substantial variances were found.

The amount of the known variance between the stock value on the SAP system for the most recent 3 stock counts is €130,016. This excludes stock loss for stock which is removed from line side, but not captured on the SAP system. This figure is unknown and can only be reconciled when proper procedures for controlling line side stock are fully implemented.

EFFECT

- Substantial variances were found between the Larnrod Eireann SAP system records and the physical stock on site quantified at €130,016 since the second stock count (We have excluded the first stock count completed, as this was a correction of the figures to form an initial basis). Due to the lack of control within the Stock Management

System and the incomplete documentation it is difficult to determine if this is actual loss, however, it is reasonable to assume based on the lack of controls within the Company and our knowledge of actual theft of stock in the North Wall division that an element of the above differences is due to theft of stock and as such has resulted in a loss to the organisation. The figure of €130,016 is the known discrepancy within the system however the stock system breaches, particularly at line side create significant scale for further risk of loss.

EVIDENCE

- r) Baker Tilly Ryan Glennon summary of reconciliations provided by

[REDACTED]

3. RISK ANALYSIS TABLE

See overleaf.

Procurement Process Cycle	Breaches Identified	Source From	Control Measure in place Yes/No	Risk Assessment Rating H/M/L
Management & Maintenance of Plant Hire Database	<ul style="list-style-type: none"> Divisional Offices used information & pricing from outside the plant-hire database 	<ul style="list-style-type: none"> BTRG 08/01, IA07/06 & IA 07/12 	<ul style="list-style-type: none"> Database/tender document/RFQ 	<ul style="list-style-type: none"> High
Request for Services by Inspector	<p><u>Requirement Identified</u></p> <ul style="list-style-type: none"> Requested were not formally documented Instances were noted where extensions to the original periods of hire were arranged directly by PW/other without reference to the procurement procedures or advice to the Divisional office Requirement for goods/services & approval of same was discussed in an informal basis & was not documented <p><u>Documentation</u></p> <ul style="list-style-type: none"> Forms were not adequately completed Forms were completed during or after work had completed Requests were not sent to the divisional office on a timely basis Difficult to determine who had completed request form 	<ul style="list-style-type: none"> BTRG 08/01 IA07/06 & IA 07/12 	<ul style="list-style-type: none"> No No 	<ul style="list-style-type: none"> High Medium
Sourcing/Selection of suitable vendors & calculation of estimated value of work	<ul style="list-style-type: none"> Vendors sourced from outside preferred vendor base Selection of a vendor by senior staff who is related to vendor, vendor was not on the plant hire database at the time Recommended number of quotes or Value for Money Exercise not carried out Contractor was pre-selected by Inspector & did not go through selection & approval process Errors in calculating the value of work was noted 	<ul style="list-style-type: none"> IA 07/06 IA 07/06 	<ul style="list-style-type: none"> 	<ul style="list-style-type: none"> High High

	<ul style="list-style-type: none"> ➤ Analysis of estimated price was not always provided
Final Selection and Approval of Contractor by ADE	<ul style="list-style-type: none"> ➤ ADE not approving request as contractor pre-selected by PWI ➤ Basis of selecting contractor was not provided
Completion of 'Request for Plant and Machinery' Hire form	
Details entered onto SAP	<ul style="list-style-type: none"> ➤ Instances were noted where Service Entry Form was completed after the work was

➤ IA 07/06 & BTRG 08/01		➤ High
➤ IA 07/06 & BTRG 08/01		➤ High
➤ IA 07/06 & IA 07/12 & BTRG 08/01		➤ Medium
➤ BTRG 08/01		➤ High
➤ IA 07/06 & BTRG 08/01		➤ High
➤ IA 07/12 & BTRG 08/01		➤ High
➤ IA 07/06 & IA 07/12		➤ High

	<ul style="list-style-type: none"> performed or the work had commenced Service Entry was created based on pro-forma invoices received after the work had been completed
Generation of a Service Entry Form from SAP by CO	
Service Entry Form issue to Inspector and Contractor by CO	
Completion of Work by Contractor & Goods/ Services Supplied receipted	<ul style="list-style-type: none"> Timesheets had not always been signed by an IE representative Quality of information provided on timesheets was poor & did not facilitate the reconciliation to invoice
Invoice received by Division Office/Inspector with supporting timesheet/delivery docket. Invoice cross-checked to timesheets/delivery dockets, service entry form, request form	<ul style="list-style-type: none"> Invoice submitted to the Divisions without timesheets/delivery dockets Invoices differed to estimated price, actual work, dates & location did not correspond to dates, work & location per service entry Invoices raised prior to completion of work Invoices approved for payment once signed by Inspector/ADE without cross check to supporting documentation Explanations for the differences between estimated costs & actual costs are not documented Requirement for one invoice per Service Entry Form is not being adhered to by the Dublin Division Requirement for one invoice per Service Entry Form is not being adhered to by the Dublin Division

➤ BTRG 08/01		➤ High
➤ BTRG 08/01		➤ High
➤ BTRG ➤ BTRG 08/01		➤ High ➤ High
➤ CAR 05/06 & BTRG 08/01		➤ High
➤ CAR05/06		➤ High
➤ IA07/06		

Approval/Acceptance of
Service Entry on SAP by
Divisional Accountant and
GRN inserted on invoice by
CO

Invoice sent to Accounts
Payable for payment

Other:

✓ Duplicate payment of invoices

✓ It was noted that in certain instances there
was a lack of segregation of duties

➤ IA 07/12 & BTRG 08/01		➤ High
➤ IA 07/06		➤ High
➤ BTRG 08/01		➤ Medium
➤ IA 07/06		➤ High
➤ BTRG 08/07		➤ High

Procurement Process Cycle	Potential Breaches	Source From
Management & Maintenance of Plant Hire Database	<ul style="list-style-type: none"> ➤ Security of Database Pricing information ➤ Benchmarking of Database Pricing ➤ Control and Management of Sensitive Data (pricing/information) within the database ➤ Audit trail of changes to prices and machinery descriptions ➤ Policy & procedure document regarding database in place & up to date ➤ Changes to database not in agreement with tender agreement ➤ Access to database by unauthorised personal ➤ Changes to database by unauthorised personal ➤ Control of & access to database back-ups & copies of database ➤ Environment that database is operating in – organisation, skills set, ownership & policy. ➤ Systems SAP Interrogation – sourcing, approval, receipting & payment 	
Request for Plant by Inspector	<ul style="list-style-type: none"> ➤ Requirements request not necessary ➤ Inspectors knowledge of Pricing & Information contained on database may lead to contractor tailoring request in order that a particular vendor is selected 	
Sourcing/Selection of suitable vendors & calculation of estimated value of work	<ul style="list-style-type: none"> ➤ Price Fixing ➤ Vendor Selection Fixing ➤ Plant Hire Documentation Fixing 	
Approval of request & Final Selection of	<ul style="list-style-type: none"> ➤ ADE not reviewing prices of 3 vendors/review value for money 	

	Control Measure in place Yes/No	Risk Assessment Rating H/M/L
		<ul style="list-style-type: none"> ➤ High ➤ High ➤ High ➤ High ➤ High ➤ High ➤ High ➤ High ➤ High ➤ High
		<ul style="list-style-type: none"> ➤ High

Contractor	<ul style="list-style-type: none"> exercise Request forms being authorised by individuals who do not have authority for a particular WBS code/cost centre/project 	
Completion of 'Request for Plant and Machinery' Hire form		
Details entered onto SAP		
Generation of a Service Entry Form from SAP by CO	<ul style="list-style-type: none"> Service Entry Forms being printed prior to A1 release [prior to Sept 07 no A1 release] Service Entry form being created after the work has been completed/after the invoice had been raised 	
Service Entry Form issue to Inspector and Contractor by CO		
Completion of Work by Contractor & Goods/ Services Supplied receipted	<ul style="list-style-type: none"> If timesheet not provided/signed no formal back-up documentation of work being completed/provided 	
Invoice received by Division Office/Inspector with supporting timesheet/delivery docket. Invoice cross-checked to timesheets/delivery dockets, service entry form, request form	<ul style="list-style-type: none"> Overpayment of goods/services received 	
Approval/Acceptance of Service Entry on SAP by Divisional Accountant and GRN inserted on invoice by CO	<ul style="list-style-type: none"> Invoice not approved by appropriate individual 	

		➤ High
		➤ High
		➤ High
		➤ High
		High

Invoice sent to Accounts
Payable for payment

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Procurement Systems SAP & Other	Breaches Identified	
Management & Maintenance of Plant Hire Database	<ul style="list-style-type: none"> Problems with the accuracy & completeness of the pricing & plant data on the plant hire database were noted Divisions used information & pricing from outside the plant-hire database due to delays in updating database 	<ul style="list-style-type: none">
Request for Plant by Inspector	<ul style="list-style-type: none"> Instances were noted where request forms for emergency work was submitted to the Div Office a long time after the work had been requested & performed 	<ul style="list-style-type: none">
Sourcing/Selection of suitable vendors & calculation of estimated value of work	<ul style="list-style-type: none"> Vendors sourced from outside preferred vendor base Recommended number of quotes or Value for Money Exercise not carried out Contractor was pre-selected by Inspector & did not go through selection & approval process 	<ul style="list-style-type: none">
Final Selection and Approval of Contractor by ADE	<ul style="list-style-type: none"> ADE not approving request form as contractor pre-selected by PWI/other 	<ul style="list-style-type: none">
Completion of 'Request for Plant and Machinery' Hire form		
Details entered onto SAP	<ul style="list-style-type: none"> Instances were noted where non-plant transactions were being proceeded through pre-approved plant hire PO 	<ul style="list-style-type: none">
Generation of a Service Entry Form from SAP by CO	<ul style="list-style-type: none"> Instances were noted where Service Entry Form was completed after the work was performed Service Entry was created based on pro-forma invoices received after the 	

	Control Measure in place Yes/No	Risk Assessment Rating H/M/L
IA 07/12 & BTRG 08/01		➤ High
IA 07/12 & BTRG 08/01		➤ High
IA 07/06		➤ Medium
IA 07/06		➤ High
IA 07/06 & BTRG 08/01		➤ High
IA07/06		➤ High
IA 07/06 & BTRG 08/01		➤ High
IA 07/06	Yes	➤ Medium
		➤ High

Service Entry Form issue to Inspector and Contractor by CO	work had been completed			➤ High
Completion of Work by Contractor & Goods/ Services Supplied receipted				
Invoice received by Division Office/Inspector with supporting timesheet/delivery docket. Invoice cross-checked to timesheets/delivery dockets, service entry form, request form	<ul style="list-style-type: none"> ➤ Invoice submitted to the Divisions without timesheets/delivery dockets ➤ Invoices raised prior to completion of work ➤ Invoices approved for payment once signed by Inspector/ADE without cross check to supporting documentation ➤ Requirement for one invoice per Service Entry Form is not being adhered to by the Dublin Division 	<ul style="list-style-type: none"> ➤ BTRG 08/01 ➤ CAR05/06 ➤ IA07/06 ➤ IA 07/06 		<ul style="list-style-type: none"> ➤ High ➤ High ➤ High
Approval/Acceptance of Service Entry on SAP by Divisional Accountant and GRN inserted on invoice by CO	<ul style="list-style-type: none"> ➤ It was noted that a significant number of service entries which relate to plant hire orders have yet to be receipted & paid 	<ul style="list-style-type: none"> ➤ IA 07/12 		
Invoice sent to Accounts Payable for payment				

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IARNRÓD ÉIREANN – PROCUREMENT & INTERNAL CONTROL REVIEW

10 JUNE 2008

Report to the Steering Group Committee

APPENDIX 3

PRIVATE & CONFIDENTIAL

Risk Assessment of the IE Control Environment

Assessing the Control Environment – Plant Hire Database

The system was developed by a user (██████████) to help the process of vendor selection for short term plant hire activities. While developing this application helped address a business requirement, it was carried out through “End-user-computing”.

End-user computing is an inherently risky process for developing key business applications. A user who is not skilled in development will take a considerably more time to develop the application than a professional developer. He may also not fully scope the requirements and consequently produce something that only satisfies limited requirements. Therefore the process can be costly, inefficient and often incomplete.

The obvious weaknesses in the system are as follows:

1 Security

- Database is not password protected or encrypted
- There are no login based controls on the data
- Access format is extremely portable – can be emailed, placed on memory keys etc. As a result the information on this system could easily be distributed to interested parties.
- All master file elements are available for display or edit by the user.

- There is no auditing on any changes to master file data (pricing)

2 Usability

- The application does not have a coherent menu / forms system. It relies on help documentation to guide users to generate their own queries through a QBE grid (Query by Example).
- There are no validation elements / processes to help prevent errors in master file data or query generation.

3 Integrity

- The database file is distributed to regional locations. Local users access their own copy of the system. There is no formal control (other than the file name) to ensure everyone is using the same version with the same pricing information.
- Local users can change pricing information without restriction
- Users extract information from a fully configurable QBE grid rather than a controlled form. Output can therefore be corrupted through user ignorance or user deception.
- Query output is not printed to a traceable log sheet that clearly shows results and the query parameters.
- The organisation of the data in tables is of questionable design. Data could have been normalised more efficiently

4 Sensitive Data

The Plant Hire database represents a tendering process for 52 Plant Hire vendors. Each have an interest to work with Irish Rail and have supplied a listing of their plant hire machinery description with related hire rates, transport costs and other as requested by Irish Rail.

We were unable to identify any controls in place which restricted / limited the visibility of this key pricing and plant sensitive data within the procurement cycle. Our understanding is that the Clerical Officer and other individuals involved in requesting plant hire services within the business unit has access to this information. Our concern is that the pricing information of one or many competitive plant hire vendors may become known to a competitor and this would give possible rise to the competitor vendor adjusting their price in order to obtain the contract and later once obtaining the contract they would adjust their prices.

Control over changes to sensitive data within the plant hire database again should be brought into question as some business units had used alternative prices to those published in the plant hire database.

Consequences

The Plant Hire database with its current setup represents a high risk area to the company of:

- Price rigging

- Bid tampering
- Loss of value for money
- PO Price changes after vendor awarded tender
- Risk to fraud exposure
- Potential Collusion between employees and vendors
- Risk that the same vendors continue to get the majority of business

Recommendations Plant Hire Database

- Create a user friendly company web front-end procurement for vendors to complete electronic tender documentation and have this interface with both commodity tables and pricing catalogues into SAP financials and procurement.
- SAP MM Contracts – More use should be made to set up long term agreements in SAP as contracts rather than ordinary PO's. The use of an ordinary PO's will typically have many partial goods receipts. This is especially noticeable with services (service entries) for plant hire.

Current SAP process for Plant Hire / Labour

- PR purchase requisition is created for plant hire services for long period of time and a large sum of money e.g. €200,000 or more.
- PR is required to be released at various levels (4 due to large value)
- PO Purchase Order is created with link to the PR purchase requisition
- PO is released

- Service Entries are created
- Service entries are released (2 levels of release introduced recently)
- Goods receipt automatically generated upon final service entry release
- Invoice posted

Proposal SAP process for Plant Hire / Labour

- PR purchase requisition is created for plant hire services for long period of time and a large sum of money e.g. €200,000 or more.
- PR is required to be released at various levels (4 due to large value)
- SAP Contract is created with link to PR purchase requisition
- SAP Contract is released
- Purchase requisition is created for ad-hoc requirement. Link with service entered (determines G/L code). Cost object is required
- Purchase Requisition is released (levels determined by value)
- Purchase order created automatically by SAP
- Service entries are created
- Service entries are released (levels required)
- Goods receipt automatically generated upon final service entry release
- Invoice posted

Big advantage in the use of contracts is the ease of invoice processing for the accounts payable department. This is because there will typically be one invoice matching to one GR, to one "call-off" PO.

Another advantage of contracts is that validity dates are specified for the period of the contract and this will control spend in relation to the contract. Currently the PO can and is amended to increase dates, quantity and values. Also contracts can have values beyond which, you cannot draw down.

Assessing the Control Environment – Tendering

From the first interim report from Baker Tilly Ryan Glennon in which the purchasing department was reviewed it had highlighted two key items that impact the control environment around tendering.

- Underutilization of Sap and current SAP skill set within procurement
- Where procurement is more involved in the administration function of tendering documentation with the possibility of other key areas within procurement not being addressed.

We were unable to determine if any control process / document existed between the tender documentation and the purchase order. The control which we are referring to here is if a tender purchase order is changed or adjusted for any reason is there a control system to track changes from the original tender price, description of delivery, terms, quality conditions and report on same. Is this control system managed within SAP or through another manual or other device?

Recommendations Vendor Tendering

- **Vendor Tendering** – create a central location for the management of all tendering documentation with specific controls on changes to prices and plant hire items. Maintain a simple report on all tenders by commodity type, vendor name, start and finish dates of tender, prices per commodity/service supplied, reference PO number, PO details and pricing reflecting the tender agreement.
- **Use SAP Contract for all Tendering** – Use SAP Contract functionality for contracts initiation and control.
- **Consider using E Tendering with a web based supported tendering application for all Tendering**

Consequences

- Control over Price changes
- Lack of reporting on breach of tolerances in price, quantity and quality from tender
- Disengaged procurement department

Assessing the Control Environment – Purchase to Pay

We have conducted a number of walkthrough's within the purchase to pay process and result of which has highlighted areas of non compliance which have been identified in detail within the first Baker Tilly Ryan Glennon Interim Report presented in January 2008.

We have noted that non-compliances noted prior with the Internal Auditors Reports and the Cost and Efficiency Audit Reports. What concerns us is the number of repetition of non-compliances and in some cases fraudulent activities have been proven to have taken place.

According to our analysis non-compliances or breaches had occurred all along the purchase to pay process / cycle indicating lax internal controls and providing the opportunity for a fraudulent environment to develop.

These lax internal procurement operational controls together with those findings from the first Baker Tilly Ryan Glennon Interim Report would suggest that the company take immediate corrective actions to address the areas of risk identified.

Recommendations- Purchase to Pay

- Establish a team of cross functional members with the relevant expertise and support to implement changes in accordance to best practice.

Consequences

- Fraud
- Loss of Value for Money
- Frustration among procurement
- Business continuously being expose to risk
- Inefficiencies

SAP System Data Interrogation

Conduct a review of SAP current reporting capabilities in order to determine whether reports exist which would allow for data interrogation of the Purchase to Pay Process.

Areas reviewed were:

- Materials Management Module (MM)
- Accounts Payable (AP)
- Other Reports (Excel)

FINDINGS:

Materials Management Module (MM)

No standard SAP report exists which allows the user to interrogate data across the full cycle of purchase to pay. Some reports have been developed from recommendations made by Baker Tilly Ryan Glennon some five years

ago. Standard SAP reports do exist for operational data analysis by functional SAP module but no SAP standard reports exist for across SAP modules and SAP Data Tables.

No coordinated program exists between Group IT, Procurement, Finance {Business Unit Accountants, Accounts Payable}, Budget Holders {Departmental Management} and Requisition Administrators to develop reports which allows for data interrogation / analysis of the purchase to pay process {PTP}.

In order for us to review transactional data with X vendors and employees we had to go to the SE16 table analysis screen and run various table reports on all fields within those tables in order to view all data captured in SAP relating to those Vendors, Employees, Locations and Projects. We then tried to establish links between the SAP tables in order for us to run queries across different SAP tables and modules.

This exercise consumed a number of individuals time trying to establish links and reports and resulted in our team just being able to produce restricted reports based on individual tables rather than reports which had the capability to extract key data across a multiple of SAP tables covering the entire purchase to pay cycle. This limitation has impacted our ability to conduct a high level report which would assist in the data interrogation of SAP. This roadblock subsequently means that more manual work and time is required to obtain other key blocks of information in the purchase to pay process PTP process.

Recommendations

Set up a team of experts both internally and externally to address the business requirements to capture key data in the purchase to pay process while insuring data accuracy at source.

Various stakeholders within the purchase to pay process will have different requirements and it's important to establish what these requirements are at the start of this engagement.

Key Stakeholders

- Group IT
- Procurement
- Project Managers
- Finance {Business Unit Accountants, Accounts Payable},
- Budget Holders {Departmental Management}
- Requisition Administrators
- Internal Audit
- Cost and Efficiency Team
- Legal
- Other external bodies whose regulations need to be complied with e.g. EU, Local Government and other.
- Vendors

Prepare a data flow diagram on how current key data flows throughout the organisation within the PTP process. With the above stakeholders establish what the key data is what's there or not and try to install a process which insures that data is inputted correctly in a timely manner into SAP.

Typically there are two approaches in accomplishing this

(1) Go to the source of the transaction "requisitioner" or who requires the goods or service and put in place a controlled SAP environment or other "paper, other technology".

(2) With improved Vendor integration you can establish as part of the vendor engagement certain criteria with regard the submission of key source data example PO#, Date Start/Finish, Plant Hire used, Pricing details and quantity, Location of work completed, type of work completed, supervised by, delivery documents, invoices etc as proof of work completed.

All this information should be in electronic version in a format which can interface with SAP MM , FI/CO and PS module allowing for immediate population of key data fields. Benefits from this are in the area of less manual data input, quicker visibility on activity, ability to generate reports quicker.